FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,120 Monday December 29 1986 D 8523 B

Eurobonds: a profitable year for the borrowers, Page 13

World news | Business summary

Iran 'on final Gulf War countdown'

Iran is "counting down for the decisive final blow" in its six-year-old war with Iraq, Iran's Parliamentary Speaker, Hashemi Rafsanjani, said.

The propaganda war between Iran and Iraq scaled new heights in the wake of last week's brief military clash on the Shatt al-Arab waterway with Iraq claiming it killed or wounded 90,000 Iranians during 14 hours of fighting and Iran claiming 9,500 Iraqis killed or wounded.

Iran also urged the United Nations to take "more serious and effective measures" to prevent Iraq using chemical weapons. Page 2

Basque arrests

Spanish police arrested four suspected Basque separatists as they were making a bomb to be used in a guerrilla attack in San Sebastian. Five more suspected guerrillas were later seized in nearby Lasarte.

Manila protest

Several hundred demonstrators chanting anti-government slogans in Manila burned piles of Time magazine, which named Philippine President Corazon Aquino "Woman of the Year."

Palestinians shot

Israeli troops shot and wounded two Palestinian students throwing stones at soldiers during a demonstration in the occupied West Bank town of Ramallah.

Spy trial begins

Israeli nuclear technician Mordechai Vanunu pleaded not guilty to treason and spy charges after he was taken to a closed court under heavy guard in Jerusalem. Page 2

Rebels seize base

Mozambican right wing rebels said they captured a government military base in north-west Tete province, killing 41 Mozambican and 23 Zimbabwean troops and destroying four Soviet-built T-34 tanks and nine BTR-152 armoured vehicles.

French demo call

Striking train drivers called for demonstrations in French cities this week to press their demands in a dispute which has disrupted rail transport and forced Prime Minister Jacques Chirac to cancel a holiday. Page 2

Jordan–Egypt talks

King Hussein of Jordan and President Hosni Mubarak of Egypt met in Amman for the second time in five weeks in an attempt to form a common stand for next month's Islamic conference in Kuwait.

Editor expelled

Israel expelled Palestinian newspaper editor Akram Haniyeh from the occupied West Bank after he abandoned a two-month struggle against a deportation order.

Japan train crash

A Japanese excursion train plunged 135 ft off a bridge, killing six people, most of them in a factory below. A railways spokesman said a gust of wind hit the train on the Japan Sea coast, 300 miles west of Tokyo, just after its 180 passengers had disembarked.

Berlin decision

The three Western allies in Berlin – France, Britain and the US – overcame initial misgivings and decided to attend ceremonies in East Berlin this week marking the divided city's 750th anniversary. Page 2

Punjab alert

Security forces were put on extra alert in India's strife-torn Punjab state ahead of a general strike called by Sikh students for today.

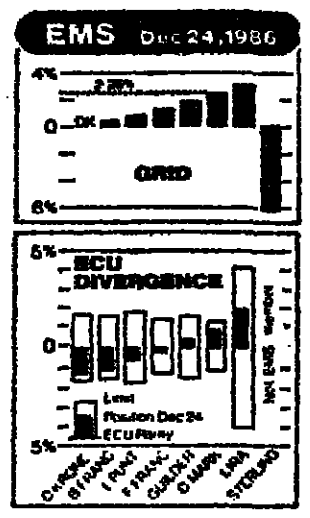
Briefly:

Cricket: England retained the Ashes by beating Australia by an innings in the Fourth Test in Melbourne. Tennis: Australia won the Davis Cup by beating Sweden, the holders, 3-2 in Melbourne.

Best year for jet aircraft producers

JET AIRLINER manufacturers had their best year in 1986, with orders for 799 new aircraft worth more than $35.5bn. Page 12

EUROPEAN Monetary System: Renewed dollar weakness put pressure on the weaker members of the EMS last week. Trading was very quiet ahead of the Christmas break, and thin trading conditions tended to exaggerate currency movements. The Danish krone remained the weakest member and slipped to 68 per cent of its maximum divergence spread compared with 60 per cent the week before.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO: Nikkei average fell 119.35 to 18,701.3 in Saturday's half-day session, due to book-squaring. The market is now shut for eight days for the New Year holiday.

MORGAN GRENFELL, financial services group, has appointed a new managing director of its American subsidiary, Morgan Grenfell Inc, as the first step in beefing up its US operations following the acquisition of C.J. Lawrence, the US securities firm, earlier this month. Page 15

TELECOMMUNICATIONS: World spending on equipment will increase by 8.4 per cent to $106.6bn in 1987, according to a forecast by the UK-based Telecommunications Industry Research Centre. Page 2

GUINNESS: A dispute between two merchant banks over which one of them owns 2.15m Guinness shares has added a further twist to the UK Department of Trade and Industry's investigation into the brewing company. Page 12

GTE, the US telecommunications group which has been the object of repeated bid speculation, has rebuffed its latest suitor, First City Financial, holding company of the Belzberg family of Vancouver. Page 15

BRAZIL is to build a 1,300-km railway to carry grain between the underpopulated farm regions of the centre-west and the Amazon port of Belem. Page 2

ALGERIAN Energy Minister Belkacem Nabi said Opec should aim at a crude oil price of $28 a barrel.

NEGOTIABLE securities will be sold for the first time in Yugoslavia on January 5, when the electric power industry of Serbia will issue debentures worth 10bn dinars ($22m). Page 15

LONDON'S image as a financial centre had deteriorated since Big Bang, said 60 per cent of British company directors interviewed in a survey. Page 4

ITALIAN industry should increase productivity by 2.2 per cent in 1987, according to the national employers' association Confindustria. Page 2

CAR SALES: A buoyant year in the UK is forecast by Glass's Guide Service, matching the expected record 1986. Page 4

Moscow 'likely to release more political prisoners'

BY PATRICK COCKBURN IN MOSCOW

THE SOVIET authorities will release many more political prisoners in the next few months following the release from internal exile of Dr Andrei Sakharov, the Soviet physicist, according to Dr Roy Medvedev, the Soviet dissident historian.

"In the first place Sakharov himself will be entering into their defence, and apart from that many were convicted under the same law as he was," he said.

Dr Medvedev, himself one of the most prominent opponents of Mr Leonid Brezhnev's Government and the historian of Stalinism in the Soviet Union, said in an interview at the weekend that, while he believed there would be many releases, he did not expect a general amnesty of political prisoners, whom he estimated to total between 2,000 and 2,500.

Other reports citing Soviet officials said yesterday that the Government had set up a special commission to examine the cases of prisoners held for political reasons and this was likely to be followed by the release of many of them.

Dr Medvedev said the release of Dr Sakharov was primarily motivated by two considerations: the authorities' fear that he or Yelena Bonner, his wife, could die in Gorky, combined with the Kremlin's consciousness of the damage that holding Dr Sakharov did to the Soviet Union's reputation abroad.

The immediate step leading to the release of Sakharov from his seven years of exile in Gorky, according to Dr Medvedev, was the death of Mr Anatoly Marchenko in prison on December 8. Mr Marchenko was the first name on a list of 15 whose release Dr Sakharov had demanded in a letter to Mr Gorbachev in the spring of this year.

The Government in Moscow feared that Dr Sakharov, who is aged 65, would start another hunger strike, his fourth since he was exiled in 1980. He and his wife have both refused medical attention since they were secretly filmed receiving treatment and therefore "the authorities had no way of knowing what condition Sakharov and Bonner were in."

"The death of Sakharov in Gorky or the death of his wife there could have become an indelible stain on the reputation of the Soviet Government, and this is the main reason which prompted Sakharov's release at this time," Dr Medvedev said.

Also the Government was conscious that, despite more democracy and liberalism at home, its reputation was still tarnished "because everyone said: 'You are holding hostage the most outstanding scientist in the country'." His detention also prevented the Soviet Union taking the offensive, as it wished to do, on human rights and did it particular damage among scientists in the West at a time when Moscow wanted to accelerate its scientific progress, Dr Medvedev said.

Dr Medvedev said another important reason for releasing Dr Sakharov was the Kremlin's realisation that his views on nuclear weapons were very similar to Mr Gorbachev's arguments against President Ronald Reagan's Strategic Defence Initiative (SDI) and in favour of a moratorium on nuclear testing. He said that in the 1980s Dr Sakharov, one of the creators of the Soviet hydrogen bomb, had opposed the creation of a Soviet anti-ballistic missile system because it is only efficient "when the country has been hit by a first strike and is already weakened and therefore it is not the one who wants to defend who creates the anti-missile system, but the potential aggressor."

Dr Sakharov's criticism of Soviet intervention in Afghanistan and human rights, "will, of course, create a certain problem for Gorbachev, but for him what is far more important is Sakharov's quality as an ally in the struggle against the new American arms programme." The Kremlin, Dr Medvedev said, was conscious that Dr Sakharov's reputation as an honest scientist independent of the Soviet Government "can act in their favour as well as against it."

US to open talks over return of frozen Iran assets

BY LIONEL BARBER IN WASHINGTON

US AND IRANIAN officials are due to meet in The Hague today to discuss the possibility of unfreezing several hundred million dollars of Iranian assets held in the US.

The assets were frozen after 52 American diplomats were seized by extremists in Tehran in 1979 and held hostage for more than a year. The sums also include interest owed by the US to Iran on money held in US bank accounts and arms previously ordered by the Shah but subsequently withheld from Ayatollah Khomeini's regime.

The talks between Iran and the US could be important since Iranian leaders have suggested that the unfreezing of assets could encourage Tehran to intervene on behalf of American hostages held in Lebanon.

The deadline for the two countries to reach an agreement expired earlier this month, leaving the threat of a court-imposed settlement. The fact that the two sides are keen to resume talks suggests a reasonable chance of a deal being struck. The Reagan Administration, beset by the Iran arms controversy, would dearly like to secure the release of at least five American hostages held in Lebanon.

President Reagan, on holiday in California, is said by his advisers to want to keep a low profile this week before returning to the White House on Friday. His sole scheduled public appearance is at a ceremony to honour the twin pilots of the experimental aircraft Voyager, which successfully circumnavigated the Earth last week.

In his weekly radio address at the weekend, Mr Reagan expressed disappointment over the Iran affair, but said he was "committed to getting all the facts and fixing whatever went wrong."

The President, reviewing 1986, said differences between the US and the Soviet Union had "narrowed significantly" and both sides were in a good position to make progress. He predicted stronger economic growth in 1987 and mentioned successful campaigns against drugs and the prosecution of organised crime leaders as gains in 1986.

But the tenor of his address was subdued, in tune with the shadow cast over his presidency by the Iran affair.

It seems certain that the President, who has been struggling vainly to escape the Iran controversy, faces fresh disclosures about contacts with the Tehran regime which suggest strongly that his Administration intended to barter arms for American hostages held in Lebanon.

Mr Reagan and senior White House officials have consistently denied any such barter deals, but yesterday a report surfaced in London of secret US-Iranian contacts going back to the middle of 1984, well before the President secretly authorised the first arms sales.

According to the Sunday Telegraph, a former US intelligence agent Mr William Hermann said that in October 1984 he had met an Iranian exile and arms dealer, Mr Manushir Ghorbanifar, to discuss an arms-for-hostages deal.

Mr Hermann, serving an eight-year prison sentence for his part in a counterfeiting operation, said he had been briefed by the CIA before the meeting and assured that the proposed sale had been approved at the highest level within the agency.

Mr Hermann said he wanted to tell his side of the story to Congress, which is investigating the arms sales to Iran and the resulting diversion of up to $30m to Contra rebels in Nicaragua.

The US State Department said yesterday that it had no comment on Mr Hermann's allegations or on his application to be deported from Britain to serve the rest of his prison sentence in the US.

Mr Hermann's story adds a further bizarre element to a story of clandestine US overtures to the Tehran regime by an administration desperate to secure the release of American citizens held by pro-Iranian guerrillas in Lebanon.

There is plenty of evidence, however, that the contacts were two-way. The Iranians were desperate to buy weapons in their war against Iraq, including arms ordered by the Shah of Iran and subsequently held in storage by the US.

Escalating the propaganda war, Page 2

Japan to spend $9bn of surplus on foreign aid

BY IAN RODGER IN TOKYO

JAPAN has responded to critics of its aid programme by attempting to direct some of its huge current account surpluses towards the economies of the developing countries.

Last week, the Japanese Government disclosed the final part of a package of around $9bn of assistance for the leading aid agencies. Some $1.8bn in additional loans is to be advanced to the World Bank over the next three years.

Some aid officials went so far as to encourage comparisons between the package and the post-war Marshall Plan through which the US helped to finance the recovery of European economies.

One aid official pointed out that – at least in nominal terms – there was not much difference in the amounts involved. The Marshall Plan amounted to the equivalent of $12bn. To implement the plan, the aid official said, the US Government had only to redirect the income it was already receiving and had been spending previously on its military effort.

Japanese officials on the other hand, have constantly been pointing out that while the country might have a huge surplus, it is all in the private sector. The Government itself is chronically short of revenue and aid officials have had to fight hard for their increases and new programmes in a year when there is to be no overall increase in government spending.

The final element of the new package would seem to be an attempt to harness the private sector surpluses to the aid effort. Accordingly, last week the Government announced that Japan would provide the World Bank with an additional Y300bn ($1.8bn) in loans over the next three years. The idea is to enable the Bank to increase its lending to the potentially strong developing countries in the hope of stimulating their economies.

Far from comparing the new measures with the Marshall Plan some Japanese officials have likened this new initiative to the Opec Special Fund or so-called Third Window. This was set up by the oil producing countries in 1976 when the world was clamouring for the recycling of their surpluses.

Again though there are important differences as the money for the Opec fund came from governments, whereas 90 per cent of the money from the Japan special fund will come from the private sector. The Opec fund loans were made for only a 0.5 per cent annual commitment charge.

The Japanese funds, it is hoped, will be raised by the Japanese Government authorising the World Bank to increase its borrowing in the Tokyo capital markets, now limited to Y300bn a year, by Y300bn over the next three years.

The Government recognises that the World Bank has to make its loans on a commercial basis and thus they may not be attractive to some already debt ridden developing countries.

To sweeten the offer, the Japanese Government is making grants to the World Bank of Y30bn spread over the next three years.

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World economic indicators, Page 2

China steps up action to calm student unrest

By Robert Thompson in Peking

THE CHINESE Government has stepped up its campaign to calm unrest on the country's university campuses by announcing over the weekend the arrest of "workers" alleged to have disturbed public order during student protests.

Five people have now been arrested in Shanghai, including one worker who masqueraded as a student and demanded money.

Three people were arrested in Nanjing last Saturday after five consecutive days of protests.

The Government is also understood to have circulated a note to newspaper editors prohibiting references to five liberal-thinking poets and the publication of extracts of their work. The authorities are apparently concerned at the impact of these poets' words on restless students.

The momentum of student protests in support of greater democracy slowed at the weekend but posters continued to surface at Peking campuses – including one proclaiming that the current Peking Government was "in every respect identical" to the "most tyrannical feudal despotism we have had" in China.

Another poster claimed that a literary magazine had been closed by city officials.

Meanwhile, the municipal government announced changes on Friday which apparently would increase the number of representatives to the lower levels of the People's Congress.

However, diplomats said they doubted whether the measures would make the election process any more democratic. They saw no concessions to the students' demands.

In the eastern city of Hefei, the capital of Anhui province and the scene of the first student protests three weeks ago, the Government has, however, made an obvious concession by delaying local elections for three weeks to allow the nomination of extra candidates.

The Chinese press yesterday carried detailed accounts for the first time of the demonstrations in Shanghai and Nanjing. The People's Daily, the official Communist Party newspaper, reported that "lawless elements" were attempting to disrupt public order and again said people with "ulterior motives" were behind the lawlessness. It did not, however, identify these people or their motives.

By allowing reports of the protests, the Government has met one of the demands made by students in Shanghai.

British Gas prepares for battle with Government over imports

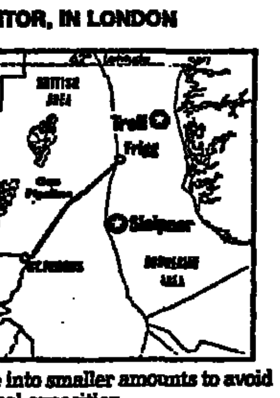
BY MAX WILKINSON, RESOURCES EDITOR, IN LONDON

THE NEWLY privatised British Gas will soon start an aggressive round *of talks with foreign suppliers* which is likely to lead to a major clash with the UK Government in 1987.

British Gas is making no secret of its desire to buy around a quarter of its requirements for the late 1990s from abroad. But ministers fear that this would conflict with their desire to promote the fastest possible development of the remaining gas reserves in the UK sector of the North Sea, which they hope will provide jobs for the supplying industry.

British Gas, on the other hand, wants to ensure that it will obtain the cheapest possible supplies. This intention has been reinforced by its successful move into the private sector earlier this month. It believes that competition from imported gas supplies will help it to strike keener bargains with the oil companies which have plans to develop gas in the UK sector.

A major gas contract with Norway for the 1990s could run to £10bn or £20bn ($14.5-$29bn), although it is more likely that the corporation would break up the purchase into smaller amounts to avoid political opposition.



It is also expected to open serious talks with Algeria, which many industry observers believe has become more "sensible" in its attitude to pricing after the collapse of its oil revenues. Algerian gas could be delivered to the UK by tankers in liquefied form or by pipeline through Spain and France.

A third option which will be explored is to buy Soviet gas, perhaps through intermediaries in France, the Netherlands or West Germany. Mrs Margaret Thatcher, the Prime Minister, has in the past been strongly against purchasing Soviet gas despite the keen prices available to continental European buyers.

The main dispute, however, is likely to be about the purchase of gas from Norway's Troll field off the coast near Bergen. When existing imports from the Frigg field start to run down in the middle of the next decade, the pipelines could easily be extended to Troll and kept full.

Statoil, the Norwegian state oil company, has now concluded an agreement with a consortium of continental buyers to develop the vast reserves in Troll, and it is anxious to reach agreement with British Gas to make the maximum use of the very large platform which is planned for the field. For British Gas there are strong arguments that this pipeline should be used to the full "before it rusts away."

However, strong lobbying has already begun to prevent British Gas from reaching such a deal. Mr Peter Walker, the Energy Secretary, has power to veto any gas pipeline planned in the British sector. Officials are now disputing whether he has power to prevent the Frigg pipeline from being used for gas from a different field.

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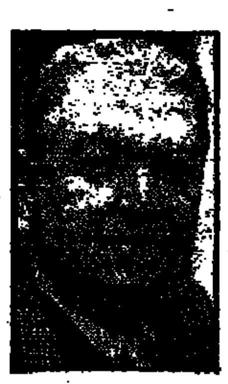


THE MONDAY PAGE

INTERVIEW

Tony Jackson talks with British author Kingsley Amis, Page 8

OVERSEAS NEWS

Chirac cancels trip as transport crisis continues

BY GEORGE GRAHAM IN PARIS

MR JACQUES CHIRAC, the French Prime Minister, has cancelled his winter holiday in North Africa in the face of the transport strikes which continue to paralyse the country.

The national train strike, now 10 days old, showed no signs of ending yesterday, in spite of an overture to the unions by the management of SNCF, the state railway company. Further disruption was expected today from the renewal of a separate strike on the Paris Metro.

The Government has tried to stand aside from the strikes, leaving it to the managements of the various transport companies to settle with their workforces, within the general 3 per cent guideline for public sector pay rises in 1987.

Mr Pierre Mehaignerie, Minister of Equipment, Housing and Transport, said at the weekend that the Government has "no call for the time being to be in the front line," and that it was up to the management of SNCF to find solutions.

But the cancellation of Mr Chirac's holiday in the wake of severe pressure on the French franc in the foreign exchange markets on Friday, has increased speculation that the Government will in the end have a play a more direct part in settling the strikes.

Talks are due to take place tomorrow between SNCF and trade union representatives, the first meeting for a week. SNCF has already offered a package totalling FFr 500m (£53m) in the form of a January bonus and pay rises in June and October, but wants "the beginning of a return to work" before discussing working conditions and its controversial new merit-linked pay scales.

Transport conditions have been calmer in the past few days as the rush to get away from the cities for Christmas died down, but chaos could return swiftly.

Strikes are also continuing in the French merchant navy, where seamen's unions are protesting against plans to allow a number of French ships to register under the flag of the Kerguelen Islands, a French possession in the southern Indian Ocean.

Italian employers expect 2.2% rise in productivity

BY ALAN FRIEDMAN IN MILAN

ITALIAN industry is expected to increase its productivity by 2.2 per cent in 1987, according to a year-end forecast by Confindustria, the employers' association.

It predicts that the country's productive capacity will rise at a faster rate than Japan's over the next two years. In 1988 industrial productivity is forecast to grow by 2.9 pe rcent compared with 2.1 per cent in 1986.

Investment in manufacturing industry is forecast to rise by 9.6 per cent next year and by 6 per cent in 1988. The level of employment in industry, meanwhile, is likely to decline marginally over the period. A decrease of 1.2 per cent is forecast to grow by 2.9 per cent per cent in 1988.

Confindustria's cautiously optimistic forecasts follow the release last week of figures showing Italy's inflation rate declining by half a point to 4.2 per cent in December. The Government is predicting a gross domestic product growth rate of 3.5 per cent in 1987; private sector economists believe it will be closer to 3 per cent.

The weekend also saw fresh efforts to strengthen the Italian banking system. The Bank of Italy has been authorised to set new criteria for the capital ratios of the country's banks. This is expected to lead to a strengthening of capital bases at many banks.

Mr Carlo Ciampi, the governor of the central bank, is said to be looking for a minimum capital base of L3,000bn (£1.5bn) at major institutions. Several banks in the predominantly state-controlled system have been increasing capital over the past couple of years. Some L25,000bn of such increases have been recorded since 1984, of which L3,500bn were raised by the sale of shares in state banks on the Milan bourse.

Berlin anniversary move

BY LESLIE COLITT IN BERLIN

THE THREE Western allies in Berlin have overcome initial misgivings and decided to attend ceremonies in East Berlin this week marking Berlin's 750th anniversary. The event is being celebrated separately in both parts of the divided city.

After lengthy deliberations, the ambassadors of the UK, US and France in East Berlin, as well as the Permanent Representative of West Germany, accepted the invitation of Mr Erich Honecker, East Germany's leader, to attend a New Year's Day concert opening the festivities.

The Western allies and West Germany still do not accept East Berlin as the capital of East Germany. They were concerned lest their presence at the ceremony signalled a shift in their position on Berlin's legal unity.

World Economic Indicators

UNEMPLOYMENT

		Nov. 86	Oct. 86	Sept. 86	Nov. 85
US	000s	8,283.0	8,242.0	8,329.0	8,161.0
	%	7.0	7.0	7.0	7.0
UK	000s	3,217.0	3,237.0	3,333.0	3,259.0
	%	11.7	11.7	12.1	11.8
		Oct. 86	Sept. 86	Aug. 86	Oct. 85
W. Germany	000s	2,026.3	2,046.1	2,120.2	2,148.8
	%	7.4	7.5	7.8	7.9
France	000s	2,668.4	2,624.3	2,373.5	2,504.9
	%	11.4	10.8	10.2	10.7
Italy	000s	3,128.5	3,155.5	3,063.7	3,023.5
	%	13.6	13.7	13.3	13.2
Netherlands	000s	696.0	704.8	710.9	743.4
	%	12.1	12.3	12.4	13.0
Belgium	000s	540.0	532.4	531.4	552.8
	%	13.1	12.9	12.9	13.4
		Sept. 86	Aug. 86	July 86	Sept. 85
Japan	000s	1,670.0	1,690.0	1,670.0	1,580.0
	%	2.8	2.9	2.9	2.7

Source (except US, UK, Japan): Eurostat

European Act faces further delay

By Quentin Peel in Brussels

THE GRANTING of an injunction in the Irish high court on Christmas Eve has left EEC officials in Brussels resigned to a new delay in implementing long-awaited reforms to the Treaty of Rome.

If the Irish Government fails in an urgent action to persuade the Dublin Supreme Court to overrule the high court decision, ratification of the Single European Act could be delayed by months rather than weeks, diplomats fear. It was supposed to come into effect next Thursday.

The injunction was granted to Mr Raymond Crotty, an Irish economist and anti-EEC campaigner, on the grounds that the Single Act raises important issues relating to the national constitution.

The Act was the result of some six months of negotiations between the 12 EEC member states, designed both to streamline the working of the Treaty of Rome, and reinforce their political co-operation outside the essentially economic scope of what is the Community's constitution.

It increases the opportunities for majority voting on EEC decisions, rather than requiring unanimity, for example, on removing barriers to internal trade.

It also gives greater opportunities for the European Parliament to influence EEC legislation — but stops short of giving the assembly full decision-making powers with the Council of Ministers which represents the member states.

The reform which has caused the greatest concern in Ireland, however, is the reinforcement of political co-operation between the 12, including closer co-ordination of "their positions . . . on the political and economic aspects of security."

That is seen by many Irish nationalists as compromising the country's neutrality when all other EEC member states are also members of the Nato alliance.

Ironically, the Single Act is regarded as a feeble failure by proponents of European federalism who originally inspired the reform effort in 1985.

The Irish injunction presents a potentially much more serious delay to implementation than the additional problem of congestion in the Greek Parliament, which has held up ratification by Athens.

It now seems inevitable that the Act will not come into effect before February 1 at the earliest, and possibly later if the Irish court procedures are extended. Failure by any single member state to ratify the Act means that it cannot be introduced at all.

Non-oil sector grows strongly in Venezuela

By Joe Mann in Caracas

VENEZUELA'S non-oil economic activities grew substantially in 1986 and unemployment declined in spite of a dramatic drop in oil earnings according to President Jaime Lusinchi.

He said that such non-petroleum activities as general industry and commerce grew by 3.3 per cent in real terms, following several years of lacklustre performance.

Mr Lusinchi also said that income from petroleum exports this year would be around $8.02bn off sharply from $12.406bn in 1985 and $14.212bn the previous year. Nevertheless, unemployment for the end of this year is estimated at 10.5 per cent, down from 12.1 per cent a year ago.

Venezuela currently had liquid foreign reserves sufficient to pay for seven months of imports, the President added.

Rail line to open up Brazil interior

BY IVO DAWNAY IN RIO DE JANEIRO

BRAZIL IS to build a 1,300 km "grain railway," linking under-populated farm regions of the centre-west to the Amazon port of Belem and the existing network of the country's industrialised south-east.

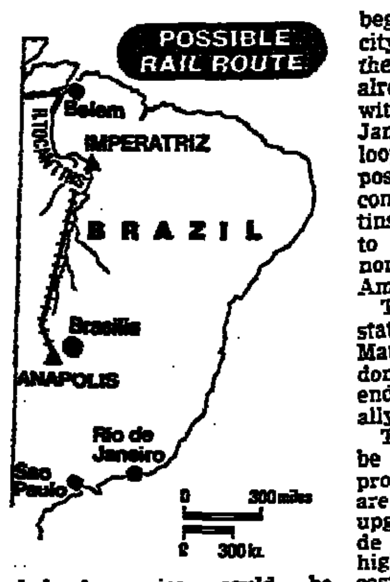
The ambitious project, details of which were revealed by the Transport Ministry last weekend, is possibly the most important scheme for opening up Brazil's vast interior since Brasilia was built in the early sixties.

Work could begin as soon as May, with the aim of completing it within three years. Already Cz 5bn (£238m) has been allocated from the Transport Ministry's budget for next year —equivalent to 1 per cent of the national budget. A new company, involving both government and private capital, will also be set up. Until now, blueprints for the scheme, which incorporates a closely integrated road and river container network, have been drawn up by the state-owned mining group, Companhia Vale do Rio Doce (CVRD).

CVRD has built a 1,000 km railway linking its Carajas iron ore mine with the northern port of Sao Luis, and is widely considered one of Brazil's most successful and best run groups.

The Agriculture Ministry is also closely involved, with orders to map out colonisation programmes to make best use of farmland in a corridor 500 km on either side of the line. Food production, in particular cereals, is a growing concern in Brazil after a year which has seen soaring demand force up imports at serious cost to the trade surplus. Wheat, which enjoys a large and much-criticised government subsidy, still costs more than $200 a tonne to produce or more than twice the world market price.

The authorities believe this drain on public funds could be reduced substantially if the heavy transport element in the wholesale price could be brought down.



Initial routeing proposals suggest that the railway should begin at Anapolis, a provincial city 100 km west of Brasilia in the state of Goias, which already has rail connections with Sao Paulo and Rio de Janeiro. From there it would loop more than 1,000 km north, possibly to Imperatriz, where connections on the River Tocantins could take grain by barge to Belem, a further 500 km north at the mouth of the Amazon.

The governors of the western states of Goias, Mato Grosso, Mato Grosso do Sul and Rondonia are reported to have endorsed the plan enthusiastically.

The Government appears to be giving high priority to rail projects. Foreign companies are competing vigorously to upgrade the key Sao Paulo-Rio de Janeiro railway line into a high-speed link — a scheme costed at anywhere between $1bn and $3bn. The 400 km journey at present takes some 12 hours.

Growth in telecom spending likely to top 8%

BY DAVID THOMAS

WORLD SPENDING on telecommunications equipment will increase by 8.4 per cent to $108.6bn in 1987, according to a report from the Telecommunications Industry Research Centre, a UK-based research group.

The report, based on information from telephone operating companies, is unusual for covering most Eastern bloc and Third World countries, as well as Western industrialised markets.

It is forecasting growth next year despite expecting only small increases in equipment spending by the US, by far the world's largest telecommunications spender, and Japan, the world's third largest.

The Soviet Union, the second biggest market, is expected to boost its spending by 17 per cent, with a 20.6 per cent increase in switches. It is likely to import telecommunications equipment worth $1.9bn, of which Eastern Europe is expected to supply $1.25bn worth.

Most of the other main telecommunications markets are showing growth of between 6 and 11 per cent, mainly fuelled by digital and fibre optic developments, the report says.

The four largest European countries, West Germany, France, Italy and the UK, will spend 8.7 more on telecommunications equipment, it says.

Countries expected to show a big increase in demand for equipment over the next two to three years are the Soviet Union, West Germany, China, Switzerland, India, South Africa, Australia, Belgium and Turkey.

Over the next five to eight years, France, Italy, Britain, South Korea, Spain, Mexico, Sweden, Austria, Saudi Arabia, Norway, Finland, Pakistan and Greece will greatly increase their spending on telecommunications equipment a lot, according to the report.

TOP 10 TELECOMMUNICATIONS MARKETS 1987 ($000)

US	24,313
Russia	9,800
Japan	7,100
West Germany	6,100
France	4,960
Italy	4,522
UK	3,450
Canada	1,927
China	1,752
Spain	1,450
Total	65,574.1

Source: Telecommunications Industry Research Centre

The largest supplier of telecommunications equipment is Japan which had 27.1 per cent of the market in 1985, compared with 26 per cent in 1984. Sweden, which overtook the US as the second largest supplier in 1984, increased its share slightly to 12.7 per cent last year.

The US equipment industry, now in third place, has been losing ground in South and Central America, but gaining in Europe and some Asian markets, the report says. In 1985, it held 11.8 per cent of the world market.

1987 World Outlook. Telecommunications Industry Research Centre, 3-5 The Square, Barnham, West Sussex PO22 0HB. £2 Europe. $3.50 rest of world.

Iran, Iraq step up propaganda

BY ROGER MATTHEWS, MIDDLE EAST EDITOR

THE propaganda war between Iraq and Iran intensified yesterday in the wake of last week's brief military clash on the Shatt al-Arab waterway, south-east of the Iraqi city of Basra.

Both countries are struggling to secure a political advantage in the run-up to the 46-nation Islamic Conference Organisation Summit opening in Kuwait on January 26, and seeking to exploit the disclosure that the US has been providing Iran with military supplies.

Iraq now claims to have killed or wounded 90,000 Iranians during 14 hours' fighting, against a figure of 10,000 it gave on Friday, some 24 hours after the battle for control of Umm al-Rassas Island ended.

Iran countered with a claim of 9,500 Iraqis killed or wounded and yesterday urged the UN to take "more effective measures" to prevent Iraq using chemical weapons. Several of its troops had been injured by chemicals during the fighting, it claimed.

The Iranian force appears briefly to have gained control of its troops had been injured yards from the Iraqi-held west bank of the Shatt al-Arab.

The Iranian attack appears to form part of the strategy it has adopted over the past two years of launching probing missions, then pouring in thousands more men if the Iraqis were caught unprepared, but this time Iraq responded quickly.

Iraq's jubilation at beating off the attack reflects the bitterness it has felt over the recent disclosures in Washington and its fear that US violation of its own arms embargo on Iran will lead to a flood of new weapons reaching its enemy.

Iraqi officials are also concerned at the political gains Iran may have made through its alliance with Saudi Arabia within Opec.

They fear these successes are helping create the impression that the regime in Tehran is now accepted as a permanent force in the region and one with which other countries will have to come to terms.

This is also the concern of President Hosni Mubarak of Egypt and King Hussein of Jordan who met at the weekend for the second time in five weeks.

The two leaders have been among the most staunch supporters of Iraq and felt betrayed over what they see as the totally misguided US attempt to build bridges to perceived moderate elements in Tehran.

During talks at Aqaba in Jordan, Mr Mubarak and King Hussein are understood to have discussed tactics for the Islamic Conference Organisation summit, during which Iran will again attempt to rally support against Iraq.

King Hussein would also like to use the meeting to forge a degree of Arab unity, but his attempts are unlikely to meet with much success.

The challenge to the Islamic Conference Organisation in seeking to reconcile the Gulf War combatants was further underlined in Tehran yesterday at the end of a four-day conference attended by dissident Iraqi groups.

Mr Ali Akbar Hashemi Rafsanjani, Speaker of the Iranian Parliament, told delegates that the only solution to the war was the total elimination of Iraq's ruling Ba'ath Party.

Iacocca rules out bid to be President

MR LEE IACOCCA, Chrysler chairman, said yesterday that he did not want to be President of the US because in a few years the American economy would be in such a crisis he would not know what to do, Reuter reports from Detroit.

"If we have (an economic) downer coming up, what are the options? I'd be damned if I know. That's why I don't want to be President.

"I'm not being a doomsday guy. I'm just saying we have to pay the piper some time, don't we?"

It was Mr Iacocca's strongest disavowal yet of a possible presidential bid. He has been mentioned frequently as a possible candidate since leading Chrysler from near-bankruptcy to soaring profitability a few years ago.

Several factors pointed to serious trouble ahead for the US economy, Mr Iacocca added.

- Inaction on reducing the federal budget deficit;
- The growing share of the US market taken by imports from Japan and other foreign nations;
- A spate of unproductive multi-billion-dollar business mergers.

Japan was now the financial centre of the world because of hard work, a saving mentality and a "rape job they did" with a currency long undervalued on world currency markets, he went on.

Last week, Mr Iacocca said he planned to stay as chief executive of Chrysler, the third-largest US car company, at least until he turns 65 on October 15, 1989.

Vanunu trial opens in secret

By Our Jerusalem Correspondent

THE TRIAL of Mr Mordechai Vanunu, the man alleged to have sold Israel's nuclear secrets to a British newspaper, opened yesterday behind closed doors, with Mr Vanunu pleading not guilty to charges of treason and aggravated espionage, according to Mr Amnon Zichroni, his lawyer.

After the 90-minute hearing, Mr Zchroni said privately that the trial would resume in six weeks, but refused to comment any further. If convicted, Mr Vanunu could face a life sentence.

Tight security measures were taken yesterday to prevent a recurrence of last week's episode, when Mr Vanunu relayed a message to the Press on the palm of his hand, saying he had been abducted in Rome.

British and Italian Press reports have since confirmed that his name did appear on the passenger list of British Airways flight 504 to Rome on September 30.

Mr Vanunu arrived at the court house more than three hours before the trial began, with his hands manacled, in a van whose windows were painted white.

He was seen leaving with a bag covering his head and a red umbrella in front of his face to shield him from any contact with the Press.

At the request of the Israeli Justice Ministry, the police have launched an inquiry into last week's "writing on the palm" affair. They have already called in several Israeli photographers and policemen for questioning to establish whether or not further charges will be pressed against Mr Vanunu.

S Africa faces probe on plans for island

A campaign began yesterday to establish whether South African plans for a remote island territory include nuclear testing and how far its proposals represent a threat to the wildlife of the area, agencies report.

According to reports, South Africa plans to build a $4m runway on Marion Island in the Antarctic, 1,200 miles south of Cape Town, and may be planning to use the island for nuclear testing.

South African and Israeli Military officers are reported to have visited the island in the past two years.

Mr Tam Dalyell, Labour MP for Linlithgow, yesterday wrote to Sir Geoffrey Howe, Britain's Foreign Secretary, asking if the Antarctic Treaty, to which Britain is one of the signatories, covers Marion Island.

He also asked Sir Geoffrey to contact the South African and Israeli governments about the report and to seek to establish how much the US knows of the proposals.

India-Pakistan talks

Top Indian and Pakistani officials have held two days of talks in an attempt to smooth out differences on a peace pact and pledge not to attack each others' nuclear facilities, AP reports from Islamabad.

"There are only small differences in our views regarding the preamble of the draft agreement for non-attack on nuclear installations," a senior Pakistani diplomat said. President Mohammed Zia ul-Haq and Prime Minister Rajiv Gandhi initiated the idea for the agreements during a December 17 1985 meeting in New Delhi.

US trade warning

Mr Richard Burt, US ambassador to West Germany, said yesterday that the US might resort to protectionism to deal with European farm and technology subsidies, Reuter reports from Bonn.

"If fair co-operation is not achieved soon in both these areas, the Americans will resort to retaliatory measures." Mr Burt declared in an interview in the newspaper Bild.

Boat-people's exodus

Thousands of refugees, driven by poverty in the Dominican Republic, to seek a new life in the US, are making a dangerous sea-crossing in small boats to enter Puerto Rico illegally, AP reports from San Juan.

No one knows how many boat-people have so far drowned crossing the 75-mile shark-infested Mona Passage.

Argentina trials

Eleven European human rights groups have urged Argentina to withdraw a bill before Parliament that puts an end to trials against security officials accused of human rights crimes, AP reports from Paris. They said it would "allow an official silence to fall over the tens of thousands of missing and murdered people."

Algeria hails PLO

Algeria is playing down its role in the release in Lebanon of French hostage Aurel Cornea, AP reports from Algiers. The official news agency said that Algeria "only did its duty" and pointed to the "decisive" part played by the Palestine Liberation Organisation.

Soviet trade minister

The Soviet Government has named a new Minister of Trade to replace Mr Grigory Vaschenko (67), who had held the post for almost four years, AP reports from Moscow. He is Mr Kondrat Terekh, a member of the central committee of the Byelorussian Communist Party.

Swiss growth seen

The upswing in the Swiss economy which started in 1983 should continue next year, according to the Government Commission for Economic Studies, John Wicks reports from Zurich.

After real growth in gross domestic product estimated at 2.5 per cent this year, the commission expects a slight deceleration in 1987.

Roderick Oram looks at a world where a prodigal daughter returns and new love enters a lonely widow's life

Marathon US tear-jerker wrings down the curtain

THE citizens of Henderson, a small mid-Western town, had to crowd a lot of living and loving into half an hour last week.

Wedding vows were exchanged, a prodigal daughter returned, several relationships were saved, divorce papers were torn up, a charming new man entered a lonely widow's life, a pregnancy was announced, new love was found in several stale marriages, and sundry slights forgiven.

"What is it, Jo? What is it you're searching for?" Stu Bergman asked Joanne, his next-door neighbour for more than 30 years.

"Tomorrow . . . and I can't wait," she replied, defiantly optimistic to the last. Both choked back tears as the credits rolled, consigning them, their families and Henderson to the scrapbook.

In a three-Kleenex climax, emotionally extravagant even by the tear-jerking standards of American soap operas, episode 9,310 of Search for Tomorrow brought to a close a five-day-a-week run which had begun in September 1951.

The oldest show on American television and ground-breaking in its prime, it finally fell victim to changing tastes and the vicissitudes of network broadcasting.

The highly-charged emotion of the last scene was palpably real. Jo and Stu, friends but never lovers through 35 years and six spouses, had been played from start to finish by May Stuart and Larry Haines. They hold the female and male records for longest service in one television role.

Jo was the "tentpole character" as soap writers say, around whom flourished a three-ring human circus known intimately to millions down through many generations of viewers.

Tragedy struck after only six weeks. The nation was stunned by the death of Jo's husband in a car crash.

"Stuart's muted exquisite performance as the grieving widow was perfect for Jo, whose character conception was of a young woman able to offer compassion to her neighbours while facing her own problems with courage and dignity," wrote Christopher Schemering last year in the soap opera encyclopaedia.

She was a revolutionary departure from the fantasy heroines of radio soaps. "Jo's hope for the future . . . had struck a chord with the public," Mr Schemering said. The show quickly became the first successful television soap and during its long life, a training ground for actors such as Dustin Hoffman and Robert de Niro.

"Search" revolved around Jo for the first 25 years as she learned to adapt, like her audience, to the changing times.

But by the mid-1970s, the most successful soaps were those such as The Young and the Restless, with storylines involving teenage love and adventure, Jo, along with older characters in other soaps, was pushed into the background.

Despite numerous changes in style and writers, the show was only sporadically successful from then on. Finally, the CBS network cancelled it in March 1982 replacing it with Capitol, a "beautiful people" story of Washington.

Dustin Hoffman . . . training ground

Procter and Gamble, the household products manufacturer which owned and produced "Search," transferred it to NBC. But the ratings got off to a poor start when numerous NBC affiliate stations failed to pick up the show because they had their own midday news and magazine programmes in its time slot.

A string of writers and producers took on the show through the 1980s but it never regained its stride for long. In 1984 its creator, Mr Roy Winsor, said: "The decline of the present version of the programme can be traced to its loss of theme and integrity of Joanne."

Much of the old quality was recouped this year but the ratings failed to respond because of the difficulty of pre-empting successful local shows in the 12.30-1 pm slot. Also, audiences appear to prefer the more complex story development that hour-long episodes offer, compared with "Search's" half hours.

An audience of roughly 50m Americans a week still tune in to more than 12 day-time soaps. Students of the genre argue that at its best, it is the only forum in films or television for serious examination of family relationships and major social issues.

The programmes are about real people in a recognisable world, in contrast to the cocktail of fickle romance, insatiable sex and improbable adventure offered in prime time soaps such as Dallas and Dynasty.

In fact, audiences appear to be tiring of both these prime-time shows. They and their clones are being pushed rapidly down the ratings this season by "sitcom." In a recent week, Dallas ranked as only the 12th most popular show and Dynasty the 34th.

Despite killing "Search," Proctor and Gamble said it remained convinced of the effectiveness of day-time soap operas for advertising its products.

Even without "Search," it will produce about 780 hours of television programmes in the coming year. It licences them to networks in return for highly advantageous advertising rates.

Procter and Gamble, whose advertising of Oxydol soap powder on Ma Perkins' radio serial more than 50 years ago gave broadcasting the term soap opera, has never revealed how profitable the medium is for it. But its practice of owning and producing shows is known to cut its advertising costs to a fraction of "bought" air time.

Sadly for the cast of "Search," their record will be short-lived. Another Procter and Gamble soap, The Guiding Light, will break the TV record next September. Having started on radio in 1937 before transferring to TV in 1952, it will notch up 50 years of broadcasting on January 25.

The personal records of Miss Stuart and Mr Haines are safe, however, for at least five years. Behind them come the two leads in As the World Turns, which started in 1956.

With Jo-like optimism, Miss Stuart, 62, looked to the future, talking enthusiastically about a play she has written which is just going into rehearsal in New York for a workshop production. She is also looking into other soap roles.

None the less, "Search's" cancellation "is very sad because it was awfully good," Miss Stuart said. "There were such monumental changes in the country, especially for women, and I think we were quite a good reflection of that."

Quoting a friend who was once a big band singer, she added: "If I'd known it was an era, I'd have paid more attention."

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UK NEWS

Busy debut in prospect for Third Market

BY ALICE RAWSTHORN

AS MANY as 25 companies may trade their shares on the Third Market, the new forum for the shares of young, unquoted companies, on its first day of dealings according to the London Stock Exchange's estimates.

Although the stock exchange has no firm figures for the Third Market it has gauged the likely level of interest by monitoring Third Market activity among its members. So far it looks as if a minimum of 15 or a maximum of 25 companies will be ready to trade their shares when the Third Market opens on January 26.

Some of the Third Market recruits will transfer from the over-the-counter (OTC) market which has sprung up off the stock exchange floor; others will come from the ranks of the mineral exploration companies which trade their shares under the Rule 535(3) system; the rest will be companies which have not traded their shares before.

If the Third Market does succeed in attracting 25 recruits on its first day it will have a markedly more crowded debut than the Unlisted Securities Market USM which began trading in the shares of just 11 companies on November 10 1980.

The stock exchange expects that at least 60 companies will be quoted on the market by the end of its first year. External estimates have pitched this figure higher. The accountants, Touche Ross, has suggested that 200 companies will join the market within the first year.

Although the stock exchange envisages the Third Market as a flexible, lightly-regulated forum in which small companies can trade their shares, it has stipulated that sponsorship and market-making will be restricted to its own member firms.

In recent months 26 member companies have indicated their intention of acting as sponsors. These include long-established member firms such as Credit Suisse, Buckmaster & Moore, Grenfell & Colegrave and Kitcat & Aitken and newcomers to the stock exchange like Guidehouse Securities. All the Third Market sponsors will make markets in the shares of their 'own' companies, but eight member firms have stated that they will also make markets in the shares of other stocks.

Eventually the shares of all Third Market companies will be quoted on the Seaq computer system. Initially, only the 'gamma' stocks, those with at least two market-makers, will be quoted on Seaq.

But the stock exchange intends to introduce 'delta' stocks, those with only one market maker, to Seaq too. It is not yet known when Seaq will be able to accommodate 'delta' shares.

Warning on workflow techniques

BY DAVID BRINDLE, LABOUR CORRESPONDENT

ATTEMPTS BY companies to improve workflow by adopting Japanese-style "just-in-time" (JIT) production methods are unlikely to be wholly successful unless more attention is paid to employee relations, researchers are warning.

Although the recession has enabled some UK manufacturers to win worker agreement to JIT processes, the researchers say, managers may have to devise other means of motivating their employees if the full benefits of JIT are to be achieved.

JIT, the shorthand for managing workflow, focuses on a range of interlinked problems including inventory control, manufacturing lead times and machine set-up times, production plant layout and relations with suppliers.

In its simplest form, JIT reduces the need for buffer stocks by ensuring that a steady and uniform flow of parts and raw materials is delivered just in time for the next production stage.

In the UK, most interest in JIT has been shown by companies in the automotive industry. Some form of the discipline has been introduced by Cumming Engines, Massey Ferguson, Perkins Engines, GKN, Lucas and TI.

The January issue of Personnel Management, the magazine of the Institute of Personnel Management, features a report on JIT implementation at two unnamed automotive sector companies – one a component supplier, the other a vehicle assembler – by Ms Stephanie Tailby and Mr Peter Turnbull, of Warwick University's industrial relations research unit.

At the components supplier, the report says, lead times have been reduced from three months to 10 days; stocks and the proportion of defective parts have been reduced; and machine utilisation has been increased from 70 to 90 per cent.

However, worker absenteeism is said to have started to rise steadily again after a significant fall on introduction of JIT.

In both cases, JIT was implemented after big redundancy programmes – with consequent uncertainty among remaining workers – and without any guarantee of job security, the report says.

Arguing that motivation and financial reward are of equal critical importance in ensuring that JIT produces best possible results, the report concludes: "In effect, therefore, at both of these companies employees are being expected to work harder without the incentive of knowing that their efforts will be translated into long-term security."

No-strike deals rejected by union chief

By Philip Bassett, Labour Editor

BRITISH trade unions have all had to make concessions in response to the initiative by the EETPU electricians' union in signing strike free agreements, according to Mr John Edmonds, general secretary of the GMBU general workers' union.

But Mr Edmonds, a key figure within British unions, rejects such agreements and predicts their disappearance.

Interviewed in International Labour Reports, Mr Edmonds says that strike-free agreements have created a polarisation within the unions, with most on one side against them, and one or two in favour.

He says that what is "worrying and damaging" is that "we have all had to make concessions in response to the EETPU putting no-strike deals on the agenda because employers have felt confident enough to demand them." The subsequent polarisation of union positions has helped employers feel comfortable.

Mr Edmonds says that the GMBU, in line with Trades Union Congress (TUC) policy, is willing to sign single-union agreements on new sites – a position he describes as "not a very noble policy, but a pragmatic one." But he says the union "will not sign no-strike deals or accept automatic arbitration or any of the 57 varieties of no-strike deals."

He says: "It is quite clear that where a union is openly prepared to flirt with no-strike deals – even when they say they have not signed them – they are in a much better position. But we think the whole thing is a con and will disappear as a fashion in due course."

International Labour Reports, No 19, Jan-Feb 1987. ILR, 2/4 Oxford Road, Manchester M1 5QA. £1.50.

Companies in network to promote technology

BY IAN HAMILTON FAZEY

AT LEAST 14 leading British companies have formed a novel type of network to promote new and improved technology among themselves and between big corporations and small business. It will start full operations early next year.

The new body has been named Nimtech (new and improved technology) and is chaired by Mr Con Allday, who retired earlier this year as chairman of British Nuclear Fuels (BNFL). It will operate initially in the north-west of England where the idea originated.

Private sector founders of the network include British Aerospace: the cables group BICC; BNFL; British Telecom; Ferranti; GEC; ICI; Mullard; Peat Marwick; Pilkington; Rolls-Royce Motors and Unilver. Barclays Bank and Costain are expected to be the next recruits. The UK Atomic Energy Authority was also in at the start.

The idea was originally developed within Pilkington Brothers, the St Helens-based glassmaker, and arose from a study of how to encourage new, high technology small businesses. Mr David Boult, the outgoing head of the Community of St Helens Trust, who is also a former director of BICC, is on Nimtech's board with leading industrialists in the region.

Part of the idea is to prevent unused or under-used technology gathering dust in large companies when it could be "spun out" profitably to small ones with lower overheads. But it is also hoped that Nimtech will help identify small businesses developing new technologies in which large companies could take venture capital stakes. The large companies might eventually be interested in outright acquisition.

In addition, Nimtech may also identify smaller companies with the right sort of skills to which large corporations could contract out some of their research and development.

Member companies are being asked to subscribe 0.03 per cent of turnover between limits of £300 and £3,000. Since Nimtech has already been granted Enterprise Agency status by the Government, subscriptions can be offset against corporation tax

Expenditure on computer-based training 'to rise four-fold'

BY DAVID THOMAS

SPENDING on computing to help with training is set to quadruple to £230m by 1990 from £50m to £60m in 1986, according to a report by the National Computing Centre.

The report is a confidential market analysis prepared for a new company, Advanced Training Technology Associates (ATTA), which claims it has devised an innovative approach to the fast-growing market for computer-based training.

The NCC report says that banking and finance companies have been leaders in using computer technology to train their staff. Low technology process manufacturers have been the slowest to wake up to these new training techniques.

The report expects retailing and the public sector to be among the main growth areas for computer-based training in the medium term.

Overall, it says spending on computer-based training will increase at an average annual rate of 45 per cent to the end of the decade.

By then, it will account for about 12 per cent of the UK's total spent on training, up from about 4 per cent in 1986.

Moreover, the mix of spending on computer-based training will change in favour of spending on "courseware" or course training.

In 1985, 55 per cent of all spending on computer-based training was on hardware, with 20 per cent on courseware. By 1990, spending on hardware will account for 35 per cent and on courseware 40 per cent, according to the report.

House price rises set to slow

BY HUGO DIXON

HOUSE PRICES are likely to increase by more than the rate of inflation next year but not by as much as they did this year, according to the Abbey National Building Society, the UK's second largest.

The Abbey said that house prices have risen 14.5 per cent in 1986 and will now "take a breather." In particular, London's very high property prices were dependent on the continued prosperity of the capital's financial markets and services industries.

In the fourth quarter, prices rose 2.9 per cent, or 12.1 per cent on an annualised basis, meaning the average house price is now £39,500. The rate of house price inflation is slightly lower than in previous quarters.

However, the north-south divide seems to be becoming more pronounced. In the last quarter, house prices rose 9.0 per cent in East Anglia, bringing the total increase over the year to 19.9 per cent.

Coal comes to terms with privatisation

BY MAURICE SAMUELSON

BRITISH COAL is starting to take seriously the prospect of privatisation in about four years if it can break into consistent profit and if the Conservatives win the next general election.

Senior managers, originally wary of the calls for selling off individual parts of the industry, have taken heart from a declaration by Mr Peter Walker, Energy Secretary, in a recent interview, that the industry should be sold as a whole rather than piecemeal.

His remarks echo those of Sir Robert Haslam, British Coal's chairman, who said recently that he would favour privatisation as long as the business remained as a single entity.

This approach differs sharply from that being canvassed by Conservative politicians two years earlier when there was talk of selling off the attractive parts of the industry and letting the lossmakers disappear.

Mr Walker's preference for selling the coal industry as a single business – as in the case of British Gas – is seen in British Coal as acknowledgement of its speed of recovery after the year-long miners' strike.

The industry now plans to break even in 1988-89, a year later than originally planned, and if it generated increasing profits for at least two years after that, it could be regarded as eligible for privatisation by a Conservative administration.

"We are clearly on target to dispense with state aid and this year we have weathered the fall in the price of oil and international coal and the strength of the pound," an official said.

No work has yet started in the Department of Energy where selling off coal is seen as still low on the Secretary of State's agenda. Officials also say the coal industry has a long way to go before it is ripe for privatisation.

But in principle they see no obstacle once it becomes consistently profitable. About a year before privatisation, it would be financially restructured, to be free of its accumulated debts. Privatisation would also entail depriving the coal corporation of its automatic title to the nation's coal reserves vested in it at the time of nationalisation.

Instead, ownership of the coal would be vested with the Energy Secretary, who would receive royalties from coal sales like those levied on oil production.

The case for keeping the coal industry intact rather than being sold off piecemeal is bolstered by its near-monopoly relationship with the electricity industry, which takes three quarters of its output under a long-term understanding, subject to annual price reviews.

The Government would have to underwrite the continuation of this supply arrangement since it would be the main attraction of the coal industry to prospective shareholders.

Worker fines may be tested by tribunals

By David Brindle

MANAGERS SHOULD think twice before imposing a customary "fine" on employees who *stagger* in late for work after the *rigours* of the holiday period.

For, as from January 1, when part 1 of the Wages Act 1986 takes effect, the common shopfloor practice of deducting, say, 15 minutes' pay for five minutes' lateness may be challenged at an industrial tribunal unless explicitly agreed in writing as part of an employment contract.

The act deals at length with the issue of pay deductions for misconduct, cash shortages or stock deficiencies. Employers who have not already done so would be well advised to check closely their contractual rights in these areas.

On the other hand, the act is being seen by the unions as giving employers *carte blanche* when it comes to contractually-agreed pay deductions. This is because the legislation includes no provision that fines must be "fair and reasonable," as did the Truck Act 1896, which it replaces.

The Wages Act's provisions on deductions supersede those of the Truck Act

Potteries reshape way out of recession

BY ARTHUR SMITH

POTTERIES, so often a neglected sector, grabbed City of London attention with the takeover sagas that resulted in the acquisition of Wedgwood by Waterford, the Irish crystal glass company, and Staffordshire Potteries by the aggressive fast-growth Coloroll wall coverings operation. But how significant are the changes and what are the prospects?

Few industries have suffered so much from recession, undergone such a dramatic change in work practices and markets, and yet demonstrate so much confidence in their future.

A new employers' and trade association, the British Ceramic Confederation has been launched amid great publicity to proclaim the common interests of an industry that claims a turnover of more than £1.5bn a year, and 70,000 workers throughout the UK making everything from cups and saucers to bricks and bathroom suites.

Recession has forced, what to the outsider, might appear a number of disparate sectors to find a common cause. It is true that all manufacturers, whether producing a household brick or fashioning a figurine, use similar basic raw materials of clay and minerals. They incur heavy energy costs to dry and fire the product. They operate in a broadly common international trading environment.

But the extent to which they refine and decorate the finished article, the value added, will define the market sector in which they operate and the extent of competition.

Overall, as Mr Kevin Farrell, director of the Ceramic Confederation, points out, his members since 1979 have shed around 30 per cent of both capacity and jobs.

But the picture varies. Companies proving red-clay products, such as bricks, pipes and clay tiles, tend to be located near quarries throughout the UK and have seen the workforce halved to around 20,000.

Investment to improve quality and productivity has been undertaken, but demand for products is very much a function of activity levels within the building and contracting industries.

Stoke, in the north Midlands, and the surrounding potteries in Staffordshire, remain the focus for white-based products such as tableware, sanitaryware and glazed tiles. The concentration of the industry upon one area made the shakeout more painful as employment slumped from 65,000 to less than 40,000 in the three years to 1982.

The table and giftware sectors, traditionally exporting more than half their output, were particularly hard-hit by the rise in the value of sterling. Mr Farrell says: "With the pound up to nearly 2.40 against the US dollar it was almost impossible to survive."

But the closures, rationalisation and changes forced by such pressures had made companies more responsive to the market-place and the customer. "It is not just a question of competing on price but also on specification design and quality", Mr Farrell argues.

Sir Richard Bailey, chairman of Royal Doulton, maintains: "During recession we learned a lot of lessons and learned them well." His own group had made both management and manufacturing changes to introduce new technology and improve the distribution network: "Our company is now in good shape to face up to the realities of rapidly changing world markets."

Sir Arthur Bryan, president of Wedgwood, points to changes in UK retailing as factors boosting the domestic market and making it one of the bright spots in the company's worldwide business.

Increased consumer spending has been a key factor in the recovery of the pottery industry over the past three years. The tourist trade is also important, accounting for more than half of all china and porcelain sales, according to Mr Farrell. He reports that after a quiet first half in 1986, sales to tourists had increased to near record levels.

Mr Farrell maintains that since the low point of 1981-82, employment in the traditional Staffordshire potteries has climbed by 5,000 to 45,000 and that output is proportionally much higher as the result of productivity advances.

He concedes that imports have made inroads into British markets but maintains the advance can be halted. The point is taken up vociferously by Sir Arthur Bryan. "The brand leaders such as Wedgwood are bound to fight back hard, and we for one are confident that we shall maintain and improve our position domestically."

UK NEWS

Kevin Brown examines the shake-up of passenger services around the coast of Britain

Board squalls put ferry operators on fresh course

THE CLOSING weeks of 1986 are proving to be a time for stout hearts and strong stomachs for those who run the passenger ferry services around the coasts of Britain.

For once, the December weather behaved itself. But there was a succession of squalls in the boardrooms as the industry underwent its most radical shake-up since the privatisation of Sealink in 1984.

As a result, millions of passengers will find themselves sailing under different flags next year, or even a new one, as the market expands to take in new routes.

The most dramatic development was the agreed bid of £286.8m from Peninsular and Oriental Steam Navigation (P & O), Britain's biggest shipping company, for European Ferries, one of the two biggest ferry operators.

The bid marks a return to the mass ferry market for P&O which sold its Normandy Ferries business to European Ferries only a year ago.

For European Ferries, which operates under the Townsend Thoresen trademark, the bid offers an escape from the effects of a disastrous involvement in US property investment.

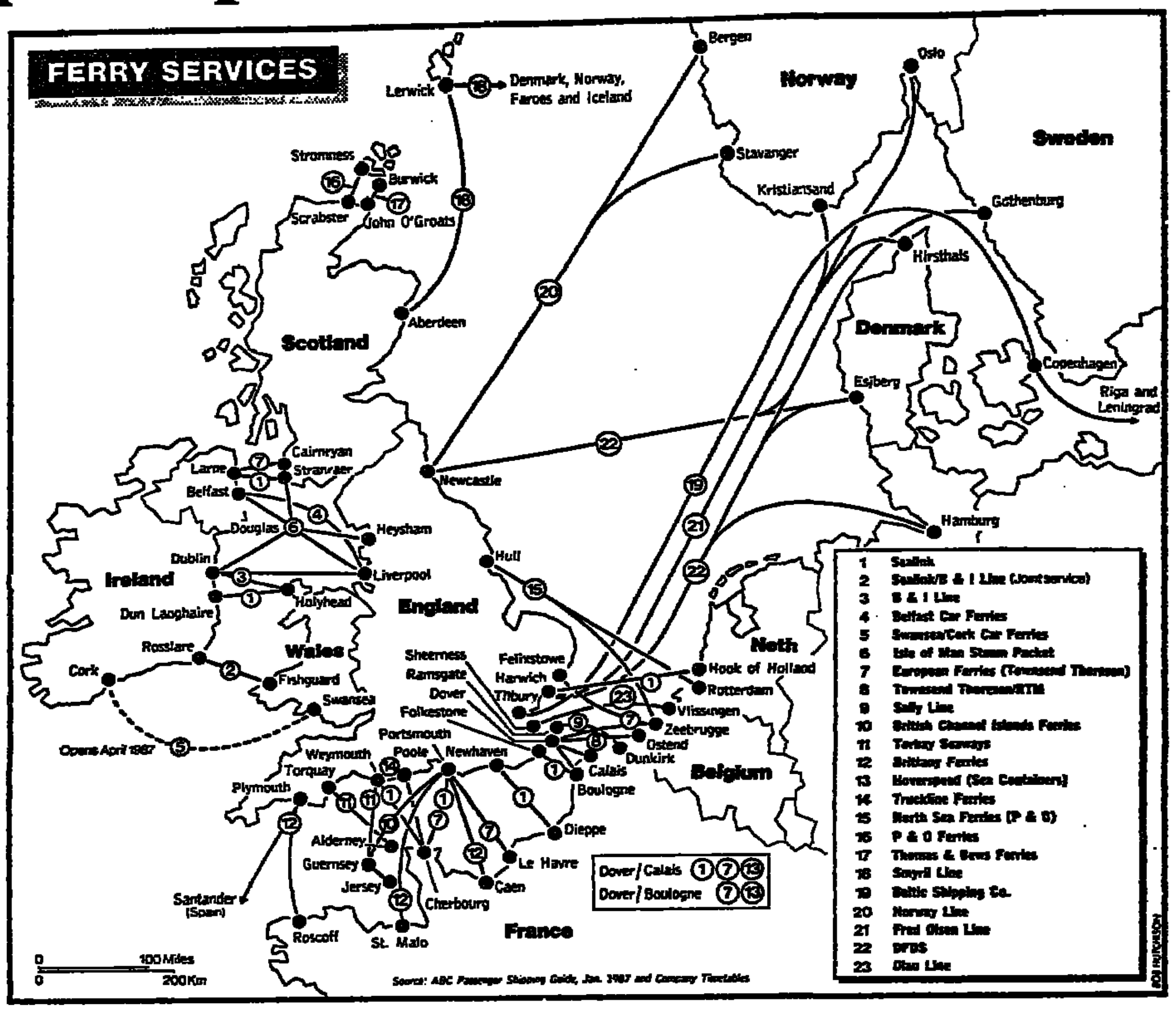
It is a sad end, however, for a company built up with flair and imagination by Mr Keith Wickenden, the former Conservative MP who was killed in an air crash in 1983.

Sir Jeffrey Sterling, chairman of P & O, has given no indication of his plans for European Ferries, but Townsend Thoresen was generally regarded as being well run, and it would be surprising if there were major changes in passenger services.

European Ferries has invested £170m in the last five years in improving its fleet, and two "jumbo" ferries due to enter service next year will maintain the company's status as a market leader.

The bid is thought unlikely to be rejected by European Ferries' 180,000 shareholders, not least because of the retention of substantial discounts for shareholders on ferry services.

Technically, the bid could have been referred to the Monopolies and Mergers Commission. Mr Paul Channon, the Trade and Industry Secretary, has stayed his hand, however, in the light of a previous report from the commission on the implications of P & O's initial 20.8 per cent stake in European Ferries.



This concluded that the small increase in the merged company's market share would be unlikely to have much effect on other passenger ferry operators. P & O held only 3 per cent of the continental European passenger market, compared with the 51 per cent market share built up by European Ferries.

While European Ferries was being snapped up by P & O, the other large coastal operator, Sealink, was having a torrid time trying to rationalise its lossmaking Channel Islands services.

The company's closure proposals provoked a damaging strike which was partly responsible for an indefinite suspension of dividends by Sea Containers, Sealink's Bermuda-based parent.

The agony did not end there, however. Sealink attempted to keep a toehold in the Channel Islands business by starting a joint service with Channel Island Ferries, a small Jersey company.

Channel Island Ferries kept its part of the deal by supplying a ship for the service – but the two ships promised by Sealink never arrived because of a protest by seamen.

Channel Island Ferries (CIF) subsequently won a High Court declaration that Sealink had broken the terms of the joint agreement and was liable to hand over its 50 per cent shareholding in the joint company, British Channel Island Ferries (BCIF).

The case is subject to appeal, but Mr Justice Hirst, the trial judge, had a number of things to say in his judgment which will have been carefully noted by Sealink's competitors and workforce.

Sealink claimed in court that in order to end the strike it was forced to conclude an agreement with the merchant navy officers' union which effectively made it impossible to provide the two ships needed by BCIF.

Mr Justice Hirst concluded, however, that Sealink had failed to establish that it was forced to sign the agreement with the union or face financial ruin. The judge said, Sealink's attitude, evinced by Mr Charles Lenox-Conyngham, the chairman, was a "misplaced" optimism that CIF would have to agree to a change in the basis on which the ships would be provided.

He added that Sealink did not have an impressive record of standing up to union pressure, and despite assurance given to CIF that the management intended to hold out, if necessary, for a long period, there had been no systematic consideration of a strategy to handle the strike.

The result is that, unless the judge's ruling is reversed on appeal, Sealink will be unable to re-enter the Channel Islands market until 1988. The company has retained a related summer service from Weymouth to Cherbourg, however, which is due to reopen in April.

What sort of profits BCIF will be able to make on the route remains to be seen, but analysts are optimistic about the prospects of a full service using two or three ships.

Sealink lost £11m on the route in 1985, while Channel Island Ferries lost another £300,000. Torbay Seaways runs a summer service to the islands from Torquay, and there are suggestions that a hydrofoil service will begin operations to Portsmouth next year.

Meanwhile, Sealink is facing new competition in the UK to Ireland market, where it runs services in co-operation with the Irish company B & I.

The new entrant is Swansea Cork Car Ferries, which will offer five sailings a week between the two ports in the summer, and three in the winter.

The company is chaired by Mr Denis Murphy, a former chairman of the Cork Harbour Commissioners, but much of the finance has been provided by Irish and Welsh local authorities, which put up £600,000, and the Irish Government, which contributed £470,000.

Both West Glamorgan County Council and Cork County Council are hoping the service will lead to a big increase in tourists. There have also been developments in the train ferry freight business, with the impending closure of Sealink's route from Harwich to Zeebrugge, and the consolidation of traffic through Dover.

Dover recently announced plans for a £9m berth to handle ships being built by SNCF, the publicly-owned French railway and shipping company.

The accompanying map shows passenger services leaving UK ports for destinations in continental Europe, Ireland, the Isle of Man and the Shetland Islands. Some services from northern, south western and Manx ports are seasonal, and freight-only routes are not included.

In addition to the services shown, Caledonian MacBrayne operates a network of services to 51 ports on Scotland's west coast and in the Firth of Clyde, and there are a number of short services to other British islands such as Lundy and the Scilly Isles.

CBI set for effort to improve City relations

BY HAZEL DUFFY

A CAMPAIGN by the Confederation of British Industry (CBI) to improve its relations with the City of London gets under way early in the new year.

The CBI is hoping to overcome some of the criticism levelled at it by businessmen, particularly industrialists, at its annual conference in November.

The main concern of industry is the belief that the City is preoccupied with the short-term view. It says that this is demonstrated by takeover bids which bear no relation to industrial rationale. There are also fears that risk capital will be insufficient to satisfy needs in the longer term.

The CBI's southern region gets the campaign underway on January 28 with a meeting of banking and financial institutions. Similar meetings will take place throughout the UK in 1987.

Points thought worthy of further examination will be sent by CBI regional directors to a national task force comprising leading businessmen and financiers. The task force is chaired by Mr David Nickson, CBI president and chairman of Scottish and Newcastle Breweries.

Further evidence of the divide between the City and British industry is given today in a survey conducted among 200 senior executives for the Institute of Directors. According to this, nearly 60 per cent of those questioned said they believed the City's image had deteriorated since the Big Bang reforms of October 27.

Almost 40 per cent of respondents described the relationship between manufacturing and industry, and the City and the financial sector, as "unsatisfactory" or "very unsatisfactory."

The institute described the decline in businessmen's views of the City as worrying. "The decline is even more significant because of the undoubted risk taken by City and financial markets in moving to trend restrictive practices," it says.

'Strong year' ahead for car sales

BY JOHN GRIFFITHS

ANOTHER BUOYANT year for new car sales in the UK, almost matching the record expected for 1986, is forecast by Glass's Guide Service, the motor trade used car valuation and statistic organisation.

In its January editorial, the guide forecasts total new car sales of up to 1.86m next year. This compares with Glass's own forecast of 1.88m units for 1986, and one of 1.86m for the current year from Mr Derek Barron, Ford UK chairman. This would set a record for the second successive year. The 1985 total was 1.83m.

The guide acknowledges "the continuing threat" to the trade and industry's profitability caused by European over-production.

"On balance, however, we believe that the healthy and sustained demand expected from both the business and private sectors of the market will go some way to curbing these forces and thus allow a welcome move back towards more realistic and sensible trading, and to healthier profits," it says.

Insolvency rules now in force

MORE THAN a quarter of Britain's directors could still be unaware of their full responsibilities under the Insolvency Act, according to a survey conducted by accountants Ernst & Whinney. Those provisions of the act not brought into force last April come into operation today.

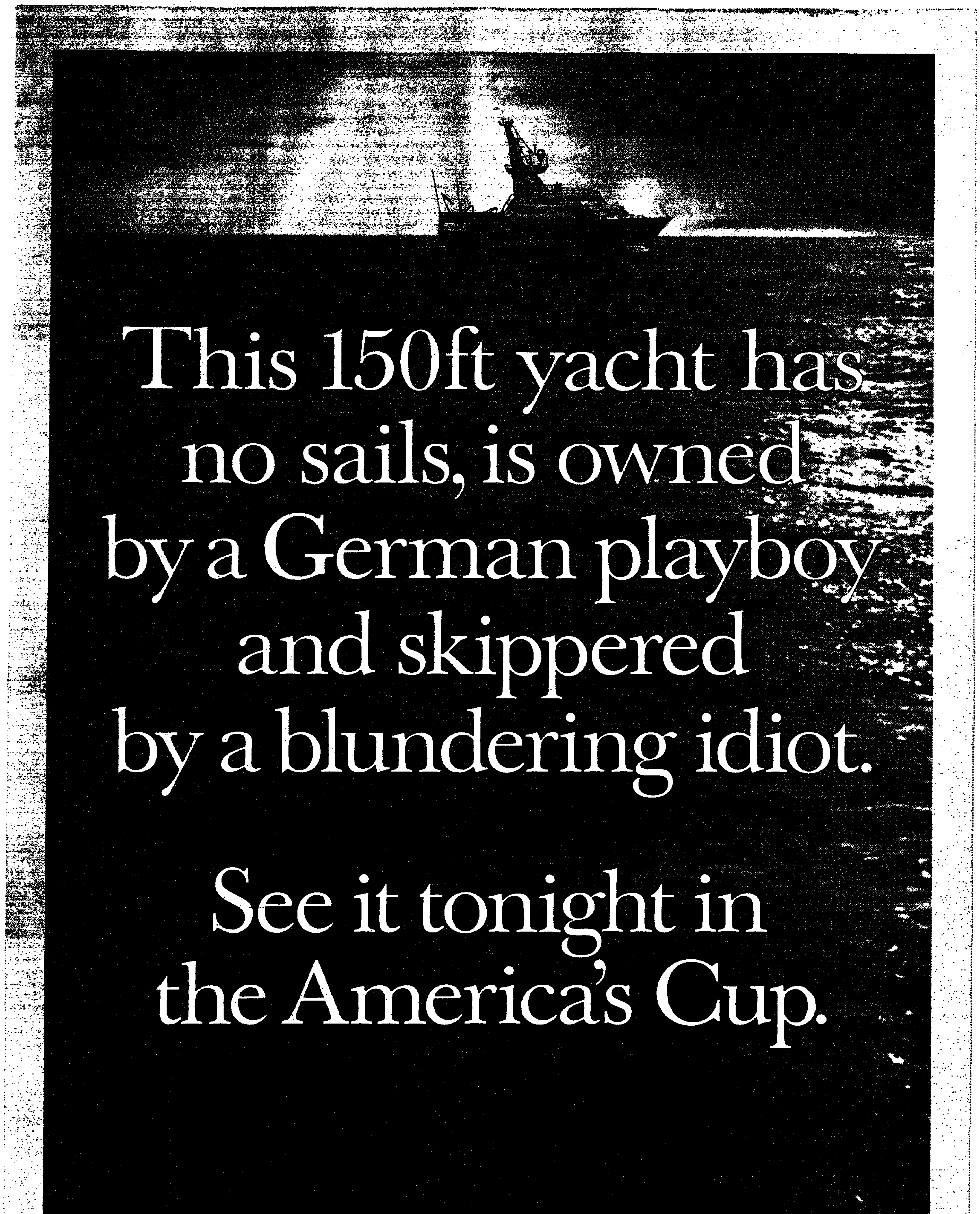
The survey found that more than a quarter of directors questioned did not know what "wrongful trading" meant under the act and how far they could be held accountable if a company traded when it was insolvent and then went into liquidation.

Sixteen per cent of directors were also unaware of circumstances under which they might be brought to court to justify their actions.

BASE LENDING RATES

	%		%		%
ABN Bank	11	Citibank NA	11	● Morgan Grenfell	11
Adam & Company	11	Citibank Savings	¶12.45	Mount Credit Corp. Ltd	11
Allied Arab Bk Ltd	11	City Merchants Bank	11	Nat Bk. of Kuwait	11
Allied Dunbar & Co	11	Clydesdale Bank	11	National Girobank	11
Allied Irish Bank	11	Comm. Bk. N. East	11	Nat Westminster	11
American Exp. Bk	11	Consolidated Cred	11	Northern Bank Ltd	11
Amro Bank	11	Co-operative Bank	*11	Norwich Gen. Trust	11
Henry Ansbacher	11	Cyprus Popular Bk	11	PK Finans. Int'l (UK)	11½
ANZ Banking Group	11	Duncan Lawrie	11	Provincial Trust Ltd	12
Associates Cap Corp	11	E.T. Trust	12	R. Raphael & Sons	11
Banco de Bilbao	11	Equatorial Tst C'p plc	11	Roxburghe Guarantee	11½
Bank Hapoalim	11	Exeter Trust Ltd	11½	Royal Bk of Scotland	11
Bank Leumi (UK)	11	Financial & Gen. Sec	11	Royal Trust Bank	11
Bank Credit & Comm	11	First Nat. Fin. Corp	11½	Standard Chartered	11
Bank of Cyprus	11	First Nat. Sec. Ltd	11½	Trustee Savings Bank	11
Bank of Ireland	11	● Robert Fleming & Co	11	UDT Mortgage Exp.	¶12.25
Bank of India	11	Robert Fraser & Ptrs	12	United Bk of Kuwait	11
Bank of Scotland	11	Grindlays Bank	‡11	United Mizrahi Bank	11
Banque Belge Ltd	11	● Guinness Mahon	11	Westpac Banking Corp	11
Barclays Bank	11	HFC Trust & Savings	11	Whiteaway Laidlaw	11½
Benchmark Tst Ltd	11	● Hambros Bank	11	Yorkshire Bank	11
Beneficial Trust Ltd	12	Heritable & Gen. Tst	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
● Brown Shipley	11	Hongkong & Shangh'i	11		
CL Bank Nederland	11	Knowsley & Co. Ltd	11½		
Canada Permanent	11	Lloyds Bank	11		
Cayzer Ltd	11	Mase Westpac Ltd	11		
Cedar Holdings	12	Meghraj & Sons Ltd	11		
● Charterhouse Bank	11	Midland Bank	11		

● Members of the Accepting Houses Committee. * 7-day deposits 6.69%. 1-month 7.03%. Top Tier—£2,500+ at 3 months' notice 10.03%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 6.69%. Mortgage 12¼%.


This 150ft yacht has
no sails, is owned
by a German playboy
and skippered
by a blundering idiot.
See it tonight in
the America's Cup.

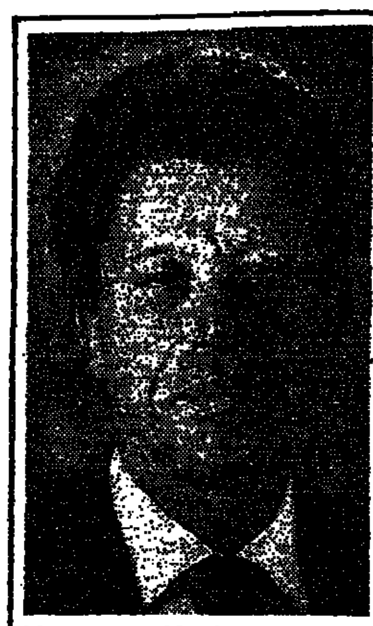
MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

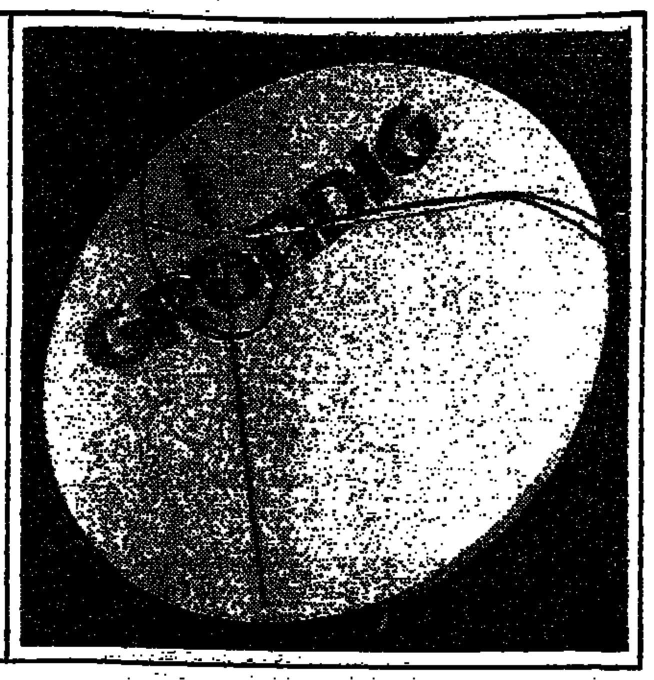
Grundig

The pain of recreating a culture

BY ANDREW FISHER



Hermanus Koning



HERMANUS KONING was a man in a hurry when he came to Grundig as the new chief executive in the spring of 1984. He had to turn round the ailing West German electronics company after Japanese competition and its own inflexible management style had led to its near collapse.

He found that not everyone at Grundig, notable at management level, was in such a rush as he was. "After a year here, I came to the conclusion that people said 'Yes', but didn't really understand what we were talking about," says 62-year-old Koning, once a forward in Dutch league football with the Feyenoord Rotterdam club.

For years, people at Grundig had deferred to the autocratic Max Grundig, who had built it up over nearly 40 years into one of the best known of all German companies. The often dismissive way in which he treated top managers and their ideas meant that Grundig had too many Yes-men.

The sick state of Grundig when Koning arrived just over two and a half years ago required speedy treatment and a drastic change of management culture. A long-time manager at Philips, the Dutch concern which now owns 31.5 per cent of Grundig, he installed systematic planning, cost control and budgeting systems that were a far cry from anything that existed before in the north Bavarian-based company.

Giving his finger a quick lick, he says: "It didn't happen just like this." To slash costs, streamline production, and exert greater control over supplies and stocks, he implemented some 90 different management projects. "It was very hard work."

Along the way, several hundred thousand jobs have gone in and outside Germany. But Koning has not marched in as an axe wielder, carving up the company and stressing cost-cutting above all else. He has kept up investment in new production methods and products and worked closely with German unions to alleviate the impact of employment cuts.

As a result of these steps, turnover per employee has risen by 50 per cent in the past three years. But average revenue per product last year was 3.5 per cent lower than the year before, reflecting tougher competition, especially from Asia. Last year, reorganisation costs, including job and capacity cuts, totalled DM 220m.

What made the rationalisation necessary was the heavy losses that resulted mainly from low-price Japanese competition in video recorders. Having been sent reeling by the sudden Asian onslaught, Grundig was unable to pick itself up fast enough. The shock had exposed the inadequacies of its inflexible management style and of the strong, patriarchal leadership of Max Grundig.

Koning's approach is far from imperious, though associates say he drives a hard pace, even on the tennis court. His career at Philips, where he also acted as a company doctor at the Dutch group's own German subsidiary before joining Grundig, meant, however, that he had a whole array of professional management experience to bring to his new job.

Today, Grundig is emerging into profit again. But the last few years have clearly been painful for the once-proud company which typified the robust entrepreneurial spirit that helped to lift Germany from its post-war economic gloom.

The style of Max Grundig, under which the company flourished vigorously after its foundation 40 years ago as a small radio shop in Fürth near Nuremberg, was not one which could be readily applied in times of difficulty. Grundig is not the only company which has found it hard to adjust to a harsher environment after years of growth and prosperity.

"It was a totally different type of management," notes Koning. Despite Grundig's chronic state, the change of thinking required was not always easy to achieve. The televisions, video recorders and other products that it produced were of high quality. But too many lax practices had grown up, especially in the areas of production and supply costs.

"It could only happen with somebody who said, 'It's all my own money,'" adds Koning, referring to the Max Grundig regime, in which other managers hardly got a look-in and top executives were regularly fired, so that the growth of strong top and middle management layers was inhibited. "As a professional manager, you can't have that."

For instance, he points out, Grundig was making far too many types of colour TVs and had more than 500 different models in stock in 1983, including some that were produced five or more years ago and were no longer made.

Grundig's warehouses, moreover, were stuffed with over 200,000 video recorders of the V2000 type, which Philips also produced. It was the Japanese invasion of the European video market that nearly did for Grundig. The VHS system offered by Japanese makers was not only cheaper, it also had a much wider range of cassettes that could be watched at home.

So notwithstanding the technical advantages of the V2000, the market virtually disappeared. Grundig eventually got rid of its remaining V2000s at low prices. This actually proved less hard than expected because they appealed to some discerning customers.

Since Koning came to Grundig, he has cut the number of model types by half. Most of the reductions have been in colour TVs, where Grundig remains the market leader in Germany with a share of around 20 per cent.

He emphasises that one favourable aspect he found when he came to the Grundig headquarters at Fürth was the fact that product quality had not suffered among all the traumas. "I found a lot of good things," he says, others being the product development side and the sales organisation.

"It's impossible to improve on a situation which is bad on all sides." Thus he did not regard Grundig as a terminal case, seeing it as a company that needed to be run more systematically. "We have realised nearly DM 400m of cost savings," he adds.

Some of the most obvious savings show through in the latest annual report for the year to March 31 1986. Stocks were reduced by a further 30 per cent to around DM 560m (£195m), representing 19 per cent of sales against 28 per cent in 1984-85. They were not far short of DM 1bn two years before.

Much of Koning's work has gone into tightening up what happens before the production stage, namely in the supply of materials and the speed at which they reach the factory. Last year, stocks of raw materials and supplies and work-in-progress were cut by 14 per cent.

On the financial side, the improvements have also been dramatic. Whereas Grundig was still labouring under net financial liabilities of DM 372m in 1984-85, last year it had net financial assets of DM 54m. Its losses fell sharply to DM 49m from DM 185m, thus beating Koning's own earlier forecast.

In the year before Koning took over, losses totalled nearly DM 290m. For the current year, he expects a profit of "at least DM 50m," and hopes Grundig can progress to around DM 200m by 1988-89. That would represent a return on turnover, then likely to be around DM 3.5bn against the DM 2.9bn of last year, of 6 per cent. "That's an aim," he says cautiously. "I can't yet put a signature under it."

Few observers would have thought three years ago that the floundering Grundig company could have responded so positively to Koning's methods. Through continued investment, its TV and video manufacturing plants are now among the most modern in the world.

"Now, at least, we've got some sort of perspective on the future," says Gerhard Domazer, a member of the team that implements new production methods in the video plant at Nuremberg. Surveying the new automated production line, which cost about DM 15m—two more will follow—he adds: "We've got to do this; we've got the Japanese at our backs."

Under Max Grundig, investment was also high in the years before Koning took over. But the former boss reacted late to the Japanese threat, both in bringing out new products and starting to shed capacity.

He has strongly criticised other European manufacturers for distributing Japanese products and thus, as he put it just before handing over management control to Philips, acting as "Trojan horses of the Japanese industry."

The Dutch group first became financially involved with Grundig when it took a 24.5 per cent stake in 1979, thus strengthening the links already built up with the supply by Philips of components, mainly TV tubes, to the German concern.

At one time, it looked as if Grundig's fortunes might be linked to those of state-owned Thomson Brandt of France. Four years ago, the French company agreed to buy from Max Grundig the 75.5 per cent of his group not owned by Philips. But the German cartel office scuppered this deal.

Even though Max Grundig had been willing to sell Thomson, he did not give up control lightly to Philips. He now concentrates on hotel interests and keeps away from the company he founded. So Philips, with German cartel office approval, now owns 31.5 per cent of Grundig, German and Swiss banks nearly 20 per cent, and the Grundig family and a family foundation, 49.5 per cent.

Koning has kept most of the original Grundig management, bringing in only four other Philips people. Three, including finance director Pieter de Jong, promoted from his auditing job at German Philips, are on the board with him.

These days, Grundig's managers have to provide much more regular information for budgeting and planning, keep a close eye on stocks and material flows, and be ready to switch course if the market goes against them.

Now that Grundig is past the worst, Koning is pondering the direction it should go in the future. With the help of consultants like McKinsey, which he also used to help chart a recovery course in 1984, he is trying to work out market sectors where Grundig is most likely to prosper.

He believes in listening to the views of outside experts, though their recommendations may not always be taken up.

Apart from improved colour TVs and videos, both markets where growth prospects are becoming more limited, he sees possibilities in the development of receivers for cable and satellite transmission. Long involved in industrial and office electronics — Grundig makes computer controls for machinery, dictation machines, and measuring and testing equipment — the company is now expanding its thrust in these sectors, which Max Grundig tended to rank behind the entertainment side.

Koning is setting up a small research team to look beyond immediate product development. The life span of products in the industrial and professional electronics sector, which makes up some 8 per cent of turnover, is going down fast, he notes. "Five years ago, systems for numerical control had a lifetime of three to five years. Now, it's down to two or three years."

With total capital spending of around DM 300m earmarked for the next two years, Grundig is steaming ahead with plans to further automate production as much as possible. Productivity at the TV plant in Nuremberg has more than tripled in the past few years.

Around 1,000 of Grundig's staff are employed on development work, and in 1985-86 the group spent nearly DM 100m on new products and manufacturing techniques.

To combat over-capacity and Japanese competition, Grundig agreed in 1985 a co-operation deal with Blaupunkt, controlled by Robert Bosch. Grundig will produce colour TVs for Blaupunkt, thus using surplus capacity, while the latter will make car radios for Grundig. The aim is for Grundig to step up TV output sharply in its existing plants, both boosting sales and lowering unit costs.

Under the co-operation deal, Blaupunkt has an option up to 1989 to buy 20 per cent of Grundig. "The longer they wait, the more expensive it will be," says Konig with a hearty laugh. But as Grundig moves deeper into the black, the question of ownership is likely to become of increasing interest.

Philips would be allowed to lift its stake, but not to over 50 per cent, under the German cartel approval of its present stake. Will it be raised? "It's quite an interesting puzzle to solve," he says, adding that it will probably stay where it is for the moment.

Management abstracts

Media evaluation. K. Bertrand and others in Business Marketing (US), August 86 (16½ pages)

A series of five articles: (1) discovers greater control being exercised by company marketing personnel over decisions to advertise in particular business publications—this at the expense of agencies; illustrates Rockwell International Semiconductors Division's media chart for evaluating publications; (2) provides guidelines for arbitrating between claims made for different publications; considers concepts such as receivership, readership, and target audiences; remarks on shortcuts taken by media planners, eg, relying on self-serving promotional materials from the publisher; recommends award-winning magazines for serious consideration; (3) offers questions to ask of publishers, eg, "who reads the publication?", "is the publication audited?", (4) outlines the shared responsibility between ad manager and agency at 3M; and (5) advises on how to read a publication's *circulation* audit.

Competition and the product life cycle. S. Onkvisit and J. J. Shaw in Business Horizons (US), July/August 1986 (11½ pages)

Faces up to the charge that the product life cycle is a variable whose behaviour depends on the marketing mix (with a product, classified as being in decline, being sure to decline still further); restates the product life cycle theory and shows how it can stand up to competitive pressures by outlining general strategies—of imitation, defence, expansion, transition and new technology adoption—which are consistent with particular life cycle stages.

Dealer involvement in direct marketing. D. L. Kastiel in Business Marketing (US), August 1986 (4 pages)

Points to the advantages of using distributors to undertake their own mailing campaigns, suggesting that a large, national organisation can sometimes lack the appeal of a local contact; notes examples, eg, Geico, a "huge" leasing company. Looks at questions raised by this method, such as who pays and who is in control; sees dealer-directed programmes as a growth area for direct marketing.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of original articles may be obtained at a cost of £4 each (including VAT and p & p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

Company Notices

Contracts and Tenders

INTERVIEW

The old devil

Novelist Kingsley Amis enjoys getting up people's noses. Here he talks to Tony Jackson

KINGSLEY AMIS is in one sense a hard man to interview. In the 30 and more years since the appearance of his first novel *Lucky Jim*, he says, he has undergone the process hundreds of times. "There's *nothing* like it for finding out which are the good and bad interviewers. The good ones," he adds warningly, "are the ones who listen."

He is correspondingly professional, though, going through his task with patience and courtesy. He begins with profuse apologies for an unco-operative taxi which made him late for the appointment. Only as the talk settles down are there occasional touches of irritability, provoked by a foolish question, a left-wing sentiment or opposition to his very decided aesthetic views.

The reader of Amis's novels may have the impression of knowing him in advance, because of the apparently intimate and self-revealing character of the writing. Not so, he says. Or not simply so, anyway. "The idea that what a book says is what an author really thinks in his life won't do. If an author's lucky or privileged enough for it to happen, the reader will say 'I've often thought that, fancy him saying it'—but not 'at last, he's giving us the truth about himself.'

"Of course, if you've read several of an author's books you can start to make deductions — 'there's a lot about women in Amis, and not a lot about homosexuals, it's a fair bet the chap's heterosexual' — that kind of thing. But imagine someone saying to Kipling 'I see your marriage is breaking down, Ruddy.' 'How do you mean?' 'Well, it says here 'the female of the species is more deadly than the male,' and 'he travels the fastest who travels alone' — so when are you off?'"

It is lunch time, and we walk to Amis's chosen restaurant, Simpson's in the Strand. His latest novel, *The Old Devils*, which won him this year's Booker Prize, dwells on the physical aspects of getting old. As might be deduced, he himself — a portly 64 — moves with deliberation.

The staff at Simpson's welcome him tumultuously, and we make our way to the bar. "Partly like a pre-war men's club," he remarks of the decor, "partly a very intelligent Hollywood imitation of one."

Installed at a corner table with a treble Glenlivet, he talks about books. "Most of my favourite writers are dead—Waugh, Wodehouse, Larkin, Betjeman, Robert Graves. Ian Fleming, too. Dick Francis is far from dead, but he's moved into the second division.

"But," he says, brightening, "George Macdonald Frazer is still with us, thank God—I read everything of his as it comes out. He's the most underrated chap in the country today—he makes the ordinary historical novelist sound like Barbara Cartland, or dreadful things like that."

There is a momentary burst of irritation at the suggestion that Barbara Cartland may be to women readers what Ian Fleming and Dick Francis are to men. But he is not, he makes clear, opposed to women novelists. He is particularly enthusiastic about a little-known English novelist, now dead, called Elizabeth Taylor.

"The trouble is," he reflects, "when you get a first rate woman novelist like that, she gets taken over by other women and queers."

There being no obvious answer to that, we go in to lunch. Along with the Lancashire hotpot, he chooses sparkling red Burgundy. "A very vulgar wine," he says. "A non-U wine. It was very popular in the north of England 30 years ago." There is a hint of the perverse about this. Does he enjoy getting up people's noses? "Oh yes. It's a fringe benefit, not the main object, but if you can't annoy someone it does take a bit of the zest out of life."

Pursuing this thought, might he not be described as a highbrow pretending to be a middlebrow, an aethete pretending to be a Philistine? "Yes—and that shocks and offends people too, or at least I hope so."

He mimics a conversation. 'Interviewer — 'what do you think of Ezra Pound?' Amis—'worthless'. Interviewer—'surely not totally worthless?' Amis—'what makes any given page of Pound worthless makes him all worthless'. It sounds Philistine to say 'modernistic crap', but it *is* modernistic crap, and I could take you through it slowly showing how."

This leads him on to another of his passions: music. "I don't see how, if you really enjoy traditional jazz, you can also really enjoy modern jazz. Those who say they do can't be hearing the things I hear in the one and which just aren't there in the other. By the same argument, those who like Benjamin Britten are missing something in Verdi and Puccini." Britten a modernist? "He's disagreeable to listen to, and that's enough."

Of course, his tastes in classical music are not as obvious as the last bit would suggest. "Weber's *Andante and Rondo all'ungherese* for bassoon and orchestra," he says, solicitously offering to spell it. "If I were that sort of chap, I'd ask for that to be played at my funeral."

A Hungarian rondo by Weber is, of course, not real Hungarian music but a pastiche. This is a vital recommendation. "It's very important to fight against authenticity. If I'm offered 'real' Punjabi music or Kashmiri hill music against what I hear in the local Indian restaurant, give me the second every time. Or 'real' Indonesian cuisine—who wants it? Give me a European compromise.

"The blues are another example. If you turn the radio on to 'Jazz Record Requests,' you're only just recovering from a wailing fandango from a modernist when they give you two blind negroes with a jew's harp and a guitar." He rocks in his seat, moaning impressionistically. "I want sophisticated blues the way Count Basie did it. People think if a thing's closer to the source it's better. In fact it's just closer to the source."

Some of this prompts another thought. Might Amis be a touch xenophobic?

"*A touch?*" he says, amazed. "Of *course*. Why? As a reaction to trendy xenophilia, for a start, and against the idea that there's a European literature or a European inheritance. Anyway, it's better for us to go with the English-speaking cultures—America, Canada, Australia—than with all these buggers in Europe."

By now he is fairly launched into politics. He is speaking with less care and more emphasis, and with an occasional touch of anger. "There is an attempt by the left to draw us away from America into a Finlandised Europe. Anyone who writes an article starting 'the two superpowers' is suspect in my view—as if the two were equivalent."

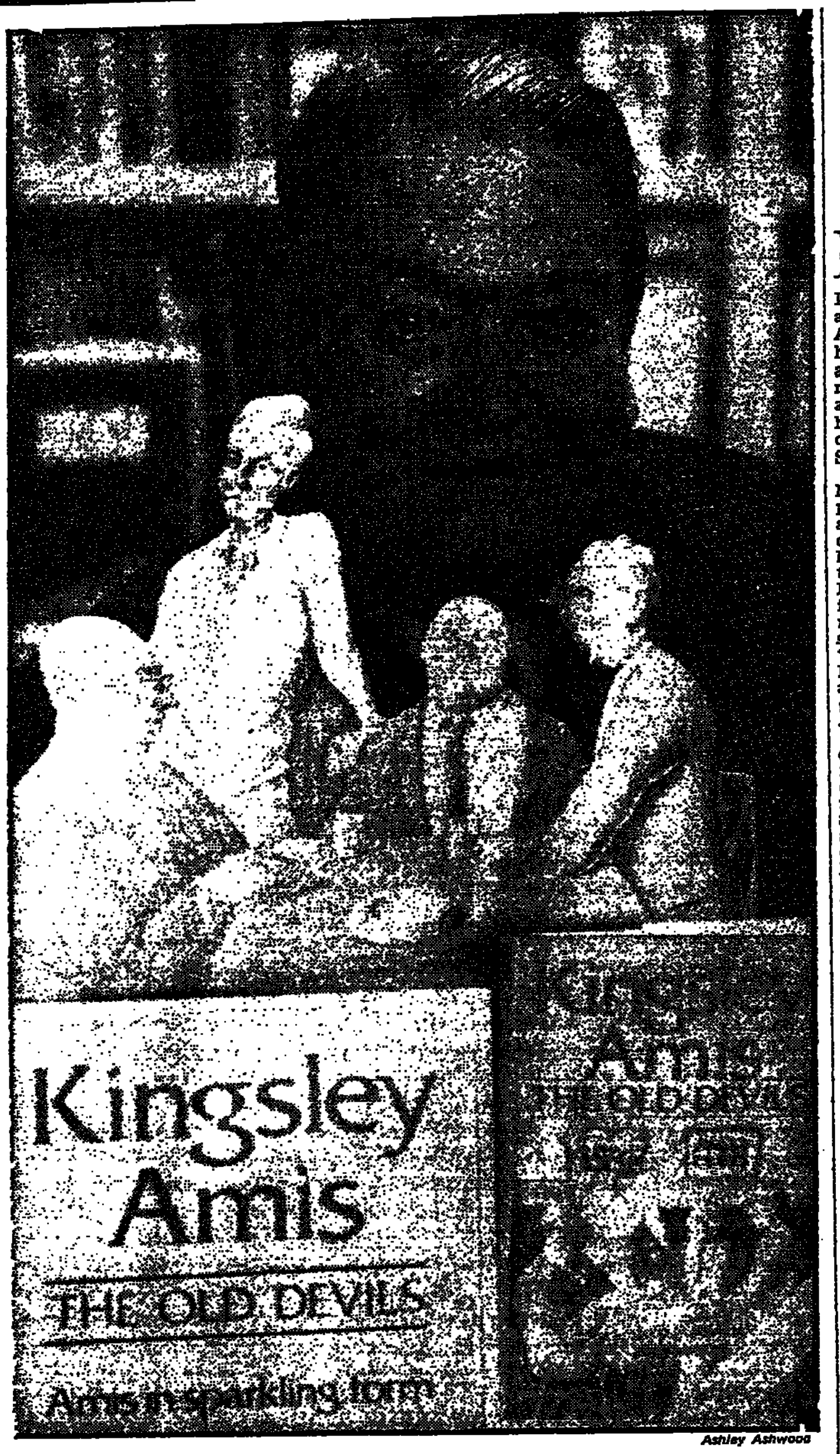
He has not, he says, belonged to any political party, since a brief time in the Communist Party in 1941. "Quite interesting that was, quite instructive. We had our men on the committees of all the political clubs in Oxford. If somebody says 'there are Communist Party members here and there in the leadership of the SDP' that sounds paranoid, but not if you've seen it elsewhere on a smaller scale. And you know that if it isn't so, it's not for want of trying.

"There is no extreme right in this country. There's no party or group that wants to abolish state education, introduce right-wing censorship or lock up Jews. And there's no foreign power to work for. Turkey? Chile? I don't expect they've many men in the Tory Party, though the Russians have men in the Labour Party.

"The other day, Amnesty International wrote asking for my support. I wrote back saying *of course* I'm not supporting your bloody organisation. Take their "Prisoners of Conscience" — pages 1-30 Turkey, 31-60 Chile, 61-90 the US and pages 91-92 the USSR to show they're even-handed. They leaked my letter — who do you think to? The Telegraph? The Times? No — the Guardian. That shows they're suspect."

Winding down over the last of the coffee, I remark apologetically that I have read almost none of his poetry. "You haven't missed much," he says. "I wish I could say you were missing a lot. Poetry is intrinsically a higher calling, but the fact is I'm a novelist. There are perhaps a dozen pieces which are all right. The rest are mostly unnecessary."

Back outside in the Strand, an empty taxi approaches. "Good luck," he says, hastily shaking hands, and heads off to intercept it. Unco-operative again, it stops for someone else.



Amis in sparkling form

Ashley Ashwood

● PERSONAL FILE

1927 Born Clapham, South London; educated City of London School, St John's College, Oxford.

1949-1963 University lecturer in English (Swansea, Cambridge). Selected novels: Lucky Jim (1954), That Uncertain Feeling (1955), Take a Girl Like You (1960), I Want It Now (1968), Girl, 20 (1971), Jake's Thing (1978), Stanley and the Women (1984), The Old Devils (1986).

1948 Married Hilary Ann Bardwell.

1965 Married Elizabeth Jane Howard (marriage dissolved 1983).

Schizophrenia and the Scottish

JOHN LLOYD

IT BECOMES no easier to keep the Kingdom United. Most obviously, in Northern Ireland the majority is as far as ever from accepting an Anglo-Irish agreement which has little more to its credit than a rise in terrorism. But less noticed is Scotland, where the approach of a general election has stimulated a renewed focus on the ever-open question of the Scots' political identity.

John Mackintosh, the Labour MP whose death robbed his party of its most passionate advocate of devolution, wrote of the Scots as a people who had to retain a "dual identity:" they were both Scots and British. This schizophrenia is familiar, even congenial, to a race who gave the world such schizoid classics as Stevenson's "Dr Jekyll and Mr Hyde," Burns' "Holy Willie's Prayer" and, the crowning glory of the genre, Hogg's "Confessions of a Justified Sinner."

Because most Scots would confess to split feelings on the matter of the union—280 years old in four days — the issue remains a deeply emotive one in Scotland (while being, reasonably, a matter of indifference or even irritation to most English people).

The Scots political arithmetic is currently this. Of the 72 Scots seats, Labour holds 41 (with 35 per cent of the vote in the 1983 election); the Tories 21 (28 per cent); the Alliance eight (25 per cent); and the Scottish National Party two (11.8 per cent). The SNP, whose sole parliamentary representatives are Mr Gordon Wilson, the party leader in Dundee East, and Mr Donald Stewart, who intends to retire at the next election (in the Western Isles), appeared three years ago to have been all but obliterated since October 1974 when, with 11 MPs and over 30 per cent of the Scottish vote the party determined the devolutionist agenda of the Labour Government.

But since 1983, nationalism has slowly reasserted itself. The latest poll (System 3 in the Glasgow Herald on December 3) shows the SNP with 18 per cent of the Scots vote: Labour has also increased its share substantially, to 49 per cent; while the Tories have fallen to 19 per cent and the Alliance to 14 per cent. The SNP is confident that the rising trend continues: it points to a string of successes —mostly at Labour's expense— in council by-elections.

A snap general election would result in seven more seats, the party believes, mainly in the northern rural areas currently Tory held: a longer pre-election period, it believes would see the SNP once again carving into the industrial lowlands belt where most Scots live.

The Nationalists' tails are up as the old year ends because they have pinned on Labour a "doomsday scenario." This is that, while Labour retains or increases its majority in Scotland after the next election, Mrs Thatcher would again dominate England and thus the UK. In front of the Scots would stretch another five years of Thatcherism for which, even at its peak, only one in four of them voted and over whose economic consequences even the Scots Tories (a wet bunch, in the main) mutter rebelliously.

Labour could do nothing: trapped in its own unionism, all it could call for in Scotland would be another five years of patience until the inevitable victory would bring the Scottish Assembly promised in its manifesto — in 1991 or 1992. Here, says the Nationalists, is the perfect reason for voting SNP — only the big bold step, the rolling back of nearly three centuries of constitutional history, can make Scotland free *now* to regenerate its own economy and be free of (as the Declaration of Arbroath put it six centuries ago) "the domination of the English."

Some of Labour's ablest people are in Scotland: Mr John Smith, the Industry Spokesman; Mr Donald Dewar, the shadow Scottish Secretary; Mr Robin Cook, the Trade Spokesman. But all suffer as well as gain from being seen to have British ambitions based on Scottish seats.

Even if they were free from electoral constraints, these men could not propose some extra-constitutional action to force a third Tory government to grant a Scots Assembly which most Tories find anathema. They *must* wait for the national tide to flow Labour's way. Mr Malcolm Rifkind, the young Scottish Secretary and a sharp Edinburgh lawyer, expressed their dilemma well in the course of an interview he gave this month to the magazine Radical Scotland. He said: "I think that as long as the vast majority of Scots vote for unionist parties and by that I mean Conservative, Labour, Liberal or SDP, anything other than Nats—and thereby express a clear political desire to remain a part of the UK — then the only mandate that matters is the UK mandate."

But Mr Rifkind is also embattled. "Governing" Scotland on the base of 25 per cent active support (or less) is a delicate task.

He also faces an at best sceptical media. The Daily Record, dominating the mass Scots market, is more solidly and overtly Labour than the rest of the Mirror Group of which it is part. The Scotsman under Mr Chris Baur and the Glasgow Herald under Mr Arnold Kemp are strongly and committedly devolutionist and even sympathetic to nationalism: they are also the daily newspapers outside London which maintain high intellectual and journalistic standards, and which can thus mobilise and refresh a distinct political culture. Both Scottish Television and BBC Scoltand are energetically "pro-Scottish": the latter under Mr Pat Chalmers has produced for national transmission next month a series on Government secrecy which may cause Mr Alastair Milne, the BBC Director-General, yet more grief; while Scottish Television, under its new controller Mr Gus MacDonald, is expanding news, current affairs and cultural coverage in a way which seeks to rid the channel of its residual tartan and folk-song image.

From all of this is emerging a cautious and opportunistic coalition of interests of the Scottish centres of power, with the media playing an encouraging and organising role from the wings. The adhesive is anti-London feeling on political or nationalistic or self-interested grounds, or a mixture of all three. This has taken, since July this year, an organisational form: the Scottish TUC, with a new young general secretary in Mr Campbell Christie, has put itself at the head of a Scottish Standing Commission.

Mr Christie says its aim is to "convince the Scottish electorate that London priorities are not Scottish priorities." Interestingly, Mr Christie, a strong left-winger, is at least tactically dropping class struggle in favour of the (Scottish) national struggle.

Mr Dewar, a firm devolutionist, is still necessarily cautious. He, too, recognises the truth of Mr Rifkind's comment: and though he says that "there is a substantial feeling for devolution that wasn't there before," he adds that "it is still an activist enthusiasm and we have to do more work to make it popular." Like Mr Neil Kinnock and Mr Roy Hattersley at national level, Mr Dewar does not wish to become Scotttish Secretary on the basis of over-heated expectations which he cannot fulfil.

There is a palpable feeling in Scottish political circles for more self-determination. It is not a simple matter, and Scots feeling is as schizoid on this as much else. But that is the way the north wind is blowing: and it will be an irony that a third term for the Conservative and Unionist Party will stimulate a flurry of radicalism and throw a further strain on the union.

The author is editor of the New Statesman.

A legal winter's tale

JUSTINIAN

AT THIS time of year there is a considerable amount of personal enrichment, both in the presumed spiritual uplift of the religious holiday and in the reciprocated gift-making that reflects the pagan aspect of the festivities.

It was with the latter part of that thought in mind that I went about my Christmas shopping. Little did I realise that one of my purchases was going to be a weighty legal tome, which discusses the law's attitude to the variety of ways that individuals are unjustly enriched. The third edition of a book first published 20 years ago appeared earlier this month as a suitable present to a perplexed lawyer friend. The Law of Restitution is a remarkable work of legal erudition into a recondite branch of law.

The authors are Lord Goff of Chieveley, who became a law lord last year, after a distinguished academic background, a life of practice in the commercial courts, followed by a successful career on the High Court bench. His collaborator, Prof Gareth Jones, has stuck to the legal academic's last at Oxford and now at Cambridge, as Downing Professor of the Laws of England. Their product of 750 pages is a masterly treatise that marks a rare but happy mixture—the expounding of a growing jurisprudence and daily practice of the law in action.

The first edition of the book in 1966 was astonishingly a late arrival, as the first English text on Restitution, a subject almost wholly unfamiliar to English lawyers. The emergence of a law of restitution as a distinct branch of law had been delayed by the application of antiquated theories about obligations to restore property, as if those obligations were to be implied only by virtue of concepts drawn from the law of contract.

Most modern civilised systems of law have found it necessary to provide for the restoration of benefits on the grounds of unjust enrichment, over and above the remedies which the law gives to those who have been the victims of breaches of contract or the sufferers of wrongs committed by others.

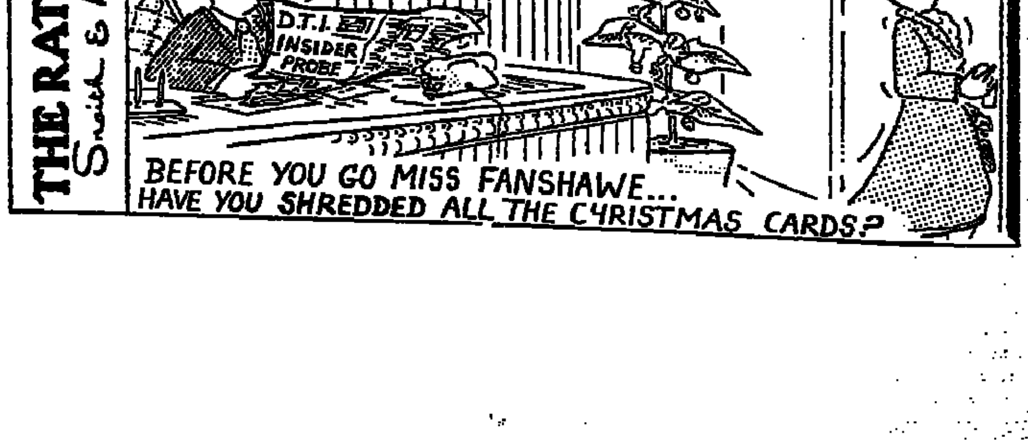
A simple example is where A mistakenly confers a benefit on B. To allow B to retain such a benefit would result in his being unjustly enriched at A's expense. Subject to defined limits, the law will not allow the retention of the benefit and will order restitution. Unjust enrichment is thus simply the name commonly given to the principle of justice which the law recognises and will give effect to in a wide variety of claims.

The Americans have long accepted the doctrine of unjust enrichment. The first paragraph of the American Restatement of Restitution states that "a person who has been unjustly enriched at the expense of another is required to make restitution to the other." The English authors compellingly argue that a close study of the English case law now reveals a highly developed and reasonably systematic complex of rules for restitution.'

The textbook, The Law of Restitution, in its exposition of the massive case law and legal literature, reveals three basic propositions. The recipient of a benefit must have been enriched beyond what he would have expected by way of a remedy for the infringement of a contractual right or damages for some definable wrong committed against him. His enrichment must have been at the expense of another person who ought not to have been deprived of the benefit. And the law must determine that it would be unjust to allow the retention of the benefit. These inter-related rules reflect in a nutshell the true nature of restitutionary claims and the principle of unjust enrichment.

Since all Christmas presents are presumably given under no misapprehension or under any compulsion other than the simple desire to benefit the recipient of the gift, the enrichment can never be said to be unjust. At least, the law would never unwrap the Christmas parcel and restore it to the donor, even if it should turn out that the person receiving it was not the intended recipient. A copy of Goff and Jones on the law of restitution should certainly not be restored to the giver, other than as a temporary loan to an inquiring colleague with a problem of determining whether the law will order restitution of a benefit derived at a client's expense.

Third Edition, 1986, published by Sweet & Maxwell; £60.



Ballet in 1986/Clement Crisp

The Bolshoy returns in splendour

It was the Bolshoy's year. After more than a decade, Moscow's Pride returned in triumph. Yury Grigorovich's ensemble — and it is absolutely the instrument of its director and choreographer — looked sleeker, younger and more powerful than heretofore. I reported on the company from Vienna and Paris and Dublin, from Covent Garden and Battersea Park, in which last location — as in Dublin — the Entertainments Corporation (impresarios for the visit) performed marvels in accommodating ballet for a large audience.

It was the year of Irek Mukhamedov as the latest in a line of technical phenomena produced by the Russian school, and also — because of his company's and his nation's aesthetic beliefs — Mukhamedov's year as a grandly expressive artist: a tormented Ivan the Terrible, a brave Spartacus, a pure hero for the cinematic fun of *The Golden Age*.

It was Natalya Bessmertnova's year as Grigorovich's muse, ideal as the heroine of his ballets, and in Paris a marvellous Giselle, the assoluta as Romantic icon.

It was Lyudmila Semenyaka's year, marking her London debut, showing us the dance as it is given to few artists to be able to reveal it. In this glorious high summer of her talent, Semenyaka is a classic ballerina without peer: her flawless Aurora in Vienna, her noble Raymonda in London, her luminous Giselle in Paris (the whole of Act 2 a danced crescendo), made this an *annus mirabilis* for ballet.

It was Alla Mikhalchenko's year, and Nina Semizorova's and Nina Ananiashvili's, as young ballerinas of superb gifts. It was the year for famous sons of famous fathers, with Andris Liepa and Alexey Fadeyechev as Bolshoy premiers danseurs;

Lyudmila Semenyaka, who made her London debut in 1986

Natalya Makarova

and it was the year when I saw the perfect Carabosse with Yury Vetrov's performance during the Bolshoy's Vienna season, exactly that implicit in Chaikovsky's score and explicit — for those who care to respect them — in Petipa's production notes and choreography.

It was also the BBC's year in that, with commendable enterprise, BBC2 TV brought off an excellent live transmission from the Battersea Tent, showing — as television should — the best of the art, rather than the dreariest of local practitioners, to the nation. It should also be gratefully recorded that the Bolshoy took its full forces to the regions, knowing that there is audience life outside the metropolis.

One other visiting troupe made a most welcome debut: The Central Ballet of China from Beijing, albeit much cramped on Sadler's Wells stage, showed strong dancers and a company bright with promise for the future. The repertory was intriguing, if rather too local in interest: on their next visit, which must be soon and to a larger theatre, more international fare would be welcome.

The Chinese, though, have come of age as a balletic force, and are fine.

The Peking Opera also made an exhilarating visit to the Wells, but for the most part the year's visitors were tiresome. The undistinguished Tokyo Ballet was an inexplicable choice for Covent Garden, with a desperate repertory which included Béjart's hermetic *Kabuki* (though with what pleasure did I see most of the cast commit suicide in the final scene), and triple bill where one wished they had committed suicide before curtain up.

The Edinburgh Festival provided a couple of clangers: the Lyon Opéra Ballet assaulted Prokofiev's *Cinderella* in a nightmare version by Maguy Marin; the Ballet of the Grand Theatre, Warsaw, presented an unwise version of *The Sleeping Beauty*. The Gulbenkian Ballet brought a lack-lustre repertory to Sadler's Wells; Rosalind Newman showed featureless dances; the wonderful Douglas Dunn was trapped at the Bloomsbury in *Futurities*, a toe-curling exercise in jazz and poetry mismatched, in which Dunn looked a gazelle among hyenas.

Stephen Petronio at The Place was highly original, always intriguing. The delightful American Ballroom Theatre at the Wells was lightfooted and light-hearted. The dire Bucket Dance Company brought choreography and dancing to naif to be credible. Happily the Dance Theatre of Harlem made London joyful by their energy and dedication to their work, with notable performances of *Fancy Free*, and the imaginative reassessment of traditional pieces: Frederic Franklin's Creole *Giselle* and John Taras' jungle-set *Firebird*.

Abroad, performances of the year were those given by New York City Ballet in a rich repertory which makes our local troupes seem half-starved and unadventurous. Merrill Ashley, Kyra Nichols, Maria Calegari, Darci Kistler (returned in superb form after a period of injury) seemed to blaze with light, and Suzanne Farell in *La Valse* was the very spirit of the company. I record with greatest regret that during the present winter season in New York Miss Farrell will retire from the stage; we shall lose an artist whose interpretative genius has given us a quarter-century of life-enhancing performances as Balanchine's muse and a key image of NYCB style. The Farrell years have been miraculous. With Ib Anderson in *Ballo della regina* (and other works) I saw dancing so pure in utterance that it seems impossible that it could be bettered.

American Ballet Theatre looked strong, dancing an eclectic repertory that included Kenneth MacMillan's new *Requiem*, with its tragic resonances from the Vietnam war, and a dislocated *Mollino Room*, all design and modish frenzy, by Karole Armitage. Mikhail Baryshnikov gave an account of the male role in *Les Sylphides* perfect in poetic sympathy: where most interpreters move as if they couldn't rhyme "June" and Moon," Baryshnikov wrote sonnets with his dancing.

From Copenhagen I reported on the reconstruction of Bournonville's *Abdallah* as presented by the Royal Danish Ballet. Alas for good intensions. The production was pious but did not succeed in evoking Bournonville as the extant repertory shows him to us.

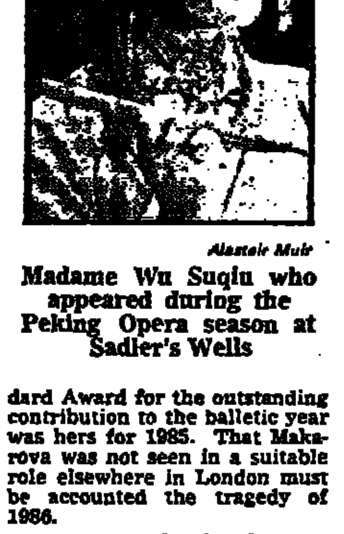
Among our own companies, Ballet Rambert celebrated its 60th birthday with a Sadler's Wells season which found the company looking alert, staging new works from five choreographers: Ashley Page, with an energetic *Carmen Arcadiae*; Ian Spink, with a witty *Mercure*; Richard Alston, new director of the company this year, with the challenging *Zansa*; Michael Clark with *Swamp* (which suggested that he may only be effective when affronting his audience); Christopher Bruce with *Ceremonies*—which proved yet again how boring copulation is as a choreographic theme. Design throughout the Rambert season was excellent.

Second Stride offered us Ian Spink's *Bosendorfer Waltzes*, a gloss on *The Firebird* which looked like surreal knitting, and Michael Clark rampaged over the Wells stage with the usual mixture of priapic japes, shoddy choreography, and fragments of admirable dancing. There was an ear-blasting rock score whose blatancies were nothing when compared with a crass portrait of Mr Clark which Channel 4 TV showed early in the year.

Extemporary Dance Theatre put on two glum programmes, one very confusing about the Muses and jazz; the other devoted to the dustier aspects of New Dance. I gained no pleasure from the programme by Janet Smith and Dancers or from the English Dance Theatre. London Contemporary Dance Theatre remains a magnificent troupe of dancers, with Patrick Harding Irmer and Darshan Singh Bhuller as its dazzling male leads, but its creations during the year told me nothing new about the company. London City Ballet acquired a staging of *Giselle* from Galina Samsova; Northern Ballet Theatre put on André Prokovsky's version of *Swan Lake*, and also staged the attractive *Ancient Airs and Dances* by Michael Corder.

London Festival Ballet, cheated of its Russian tour by Chernobyl, nevertheless kept a high profile, staging Roland Petit's *Carmen*, Balanchine's Symphony in C, and a new and over-complicated *Nutcracker* by its director, Peter Schaufuss. The most intriguing work of the year came from Christopher Bruce with *The World Again*, a mysterious and mysteriously touching view of regeneration, danced with fine conviction by a cast led by Jeannette Mulligan. The company continued indomitably seeking a new audience with LFB2, and winning that audience with a well-conceived repertory which included the madcap *Drop your pearls and hog it, Girl* from the flavour-of-the-month Michael Clark.

Performance of the year, and tribute to the galvanising effect of a super-star, was Natalya Makarova's single appearance as Tatyana in *Onegin*, lighting up the Coliseum with a nova of temperament and dancing, and showing why the London Standard Award for the outstanding contribution to the balletic year was hers for 1985. That Makarova was not seen in a suitable role elsewhere in London must be accounted the tragedy of 1986.



Alastair Muir

Madame Wu Suqiu who appeared during the Peking Opera season at Sadler's Wells

For our national ballet the year was one of mixed and frequently unhappy fortunes. The best news was that the Digital Equipment Company, with splendid generosity, came to the rescue of Sadler's Wells Theatre in an admirable act of sponsorship which not only secured the future of a theatre embattled through bureaucracy and Arts Council myopia, but also provided further support (under the umbrella title of Partners in Dance) for other troupes and organisations. DEC has the gratitude of the British dance world.

Sadler's Wells Royal Ballet, intimately involved in the Wells crisis, contrived to make a major tour of North and South America, put on new works by Susan Chow and Graham Lustig, revived Frank Staff's adorable *Peter and the Wolf*, played a Covent Garden season in addition to visits to the Wells, mounted David Bintley's three-act, very popular (and to me, wildly disappointing) *Snow Queen*, and generally got about its business of being overworked, under-manned, and wholly dedicated.

The Royal Ballet at Covent Garden acquired a new director in Anthony Dowell at the start of this season, and had a switch-back of a year. There were some gleamingly good performances: Antoinette Sibley and Anthony Dowell in *Manon* and *The Dream*; Fernando Bujones as a guest in *La Fille mal gardée*; Gelsey Kirkland as an exquisite Aurora but a much less convincing Juliet; Lesley Collier in the welcome revival of *Anastasia* Act III; Stephen Jefferies in *Mayerling* and in much else he danced; Anthony Dowson making an unexpected but very worth-while début in *Mayerling*; Fiona Chadwick dazzling in *Le Baiser de la fée* as in all her roles; Philip Broomhead as a new and fluent Oberon; Michael Coleman as a wonderfully funny Bottom in *The Dream*, and convulsing as the Spike Milligan of the dance in *Flora's Demise*, included in the Save the Wells gala organised by the Royal Ballet's dancers to help fight for their ancestral home.

Symphonic Variations was at last restored to the Opera House repertory, as was *La Valse* in Ashton's version, and the revised version of MacMillan's *Baiser de la fée* was most welcome. Rather less so was Jerome Robins's *Opus 19; The Dreamer*, a Baryshnikov vehicle that made no sense for the Royal Ballet, though Robbins's *The Concert* came back in spanking form. David Bintley's *Galanteries* featured in the Royal Ballet's visit to Vancouver's *Expo '86*, but looked to me too genteel for its Mozart scores. The year ended dreadfully for the company with the creation of Wayne Eagling's *Beauty and the Beast*, an exercise in choreographic and musical kitsch that should never have seen the stage of a supposed "centre of excellence."

It was a year in which standards of dancing were both a delight and a chief cause for concern. The Bolshoy's example was there for our local ensembles to contemplate and —dare we hope—emulate in a quest for classic probity and power. The arrival of Cynthia Harvey as a principal of the Royal Ballet was also an example of how American training, allied to a beautiful physique, produced dancing with a technical gloss and grace undreamed of by most of our native artists.

It was a year generally dim in its choreographic novelties. It was, alas, a year all too like its predecessors of late, in seeing the third-rate accepted as the norm. Let 1987 be the year in which that kind of dance-rot is stopped.

Trevor Humphries

Architect Richard Rogers made his mark this year

Architecture in 1986/Colin Amery

Spotlight on Lloyd's

The year began much as it has ended with the inner cities and their problems being discussed at length at all levels, with the Prince of Wales lending his support to Inner City Aid and the community architecture bandwagon rolling slowly into the Royal Institute of British Architects.

Politics apart it has been a good year for architects. The three fashionable star architects, Norman Foster, Richard Rogers and James Stirling survived the blaze of publicity that acompanied their show *New Architecture* at the Royal Academy. All three also experienced the more significant pleasure of seeing major buildings they had designed officially opened. In London it was the year of Lloyd's—an important and extraordinary new headquarters designed by Richard Rogers and politely opened by the Queen.

In Hong Kong the Governor opened the headquarters of the Hong Kong and Shanghai Bank designed by Norman Foster and reputed to be the most expensive building in the world. James Stirling saw his Sackler Wing at the Fogg Museum at Harvard move into operation and his work is complete at the Clore Wing of the Tate Gallery although the pictures are still being hung. The year of 1986 was clearly the year of the new museum. It ended with an explosion of monumental proportions at the Musee d'Orsay—a converted railway station in Paris and began with the selection of the American architect Robert Venturi to design the new extension to the National Gallery in London.

Important new museums opened in Merida in Spain, Cologne and Los Angeles. The Japanese architect Arata Isosaki, who is clearly one of the most interesting designers around today, won the RIBA Gold Medal. It was his museum that opened to display contemporary art in Los Angeles at the end of the year—he described it as a village among the skyscrapers. The world is still waiting to hear what wonders Richard Meier will perform as he plans the new Getty Museum to be built above L.A.

Not everything that was announced, was on the monumental scale. Jeremy Dixon/BDP prepared a sensitive, but expensive, scheme for the rejuvenation of the Royal Opera House and those parts of the Covent Garden that the Opera House's influence reaches. The result is to be a completion of the plazza (originally Inigo Jones) in a modern classical style. Modern classicism (or is it post modern neo-classicism?) reared its head in a provocative and interesting proposal for the redevelopment of Spitalfields for the developer Stuart Lipton by the architectural theorist Leon Krier.

In planning terms, the concerns which continued to occupy ministers were the rampant spread of shopping and leisure centres — the opening of the Metrocentre near Gateshead proved that shopping can take the lead — but the sanctity of the Green Belts seemed to be confirmed by Nicholas Ridley. While the danger of over development tilting the island irreparably to the South East was denied by the Prime Minister speaking in Manchester—the M25 continued to be a traffic jam.

In the South East it is still Dockland which most preoccupies developers and its shadow continues to worry the City of London. Will Canary Wharf be built this year and will the tenants turn up? The House of Lords decided not to impede the progress of the Dockland Light Railway Bill, which does mean that in time it will be possible to nip down to the Docks from the Bank in 15 minutes or so. James Stirling was chosen to design one of the Canary Wharf Towers, although most of the planning of the scheme is American, with Skidmore Owings and Merrill and I. M. Pei as the lead architects. One architect told me this year that staying at the Savoy Hotel in London was what staying in the Teheran Hilton had been like in the 1970s . . . impossible to move for American architects. Philip Johnson won the limited competition to design the second phase of the Hay's Wharf complex on the South Bank of the Thames. He's promising something Edwardian.

Three extraordinary and marvellous architectural influences died in 1986. Penelope Betjeman—the widow of John Betjeman and better known as the traveller and writer Penelope Chetwode——died on one of her remarkable explorations of India. She had some refreshing views about the origins of Hindu architecture, being quite convinced that the wooden temples of the Himalayas traced their design origins to Norway . . . there is a curious stylistic link between the wooden churches and the simpler Hindu structures. She was the last of the free thinkers when it came to architecture and it was round her excellent table that so many ideas were refreshed. Osbert Lancaster had a gift for the incisive and witty cartoon that summed up so much architectural and stylistic pretension. He invented "By-Pass Modern, Vogue Regency and Pont Street Dutch" but at the same time opened our eyes to the glories of Byzantium and the Greek islands in his architectural travel writing. This inventor of Pelvis Bay and Drayneflete will be much missed.

Another less familiar but in his way more important figure died at the end of 1986. Hubert de Cronin Hastings was the joint proprietor and editor of the *Architectural Review* until 1973. He pioneered through his magazine so many things; townscape, inscape, Civilia and a broad view of architecture that championed the Modern Movement while encouraging the picturesque — a rich view of history and a belief in the virtues of style. He was a curious genius, almost impossible at times to work for because he found it hard to see that not everyone shared his powerful vision of the world. He made the *Architectural Review* the magazine that opened eyes. It has never been as good, or even as interesting, since he left it—it lacks the passion that only he could bring.

The new year is not likely to see vast changes until Mr Rod Hackney moves into the RIBA in July. He has a huge task and the best thing to do is to wish him — and the profession — well in 1987 and beyond.

Alastair Muir

The new Lloyd's building

Arts Guide

December 26–January 1

Music

LONDON

Wigmore Hall: King's Consort directed by Robert King. Bach and Telemann (Thur).

VIENNA

Vienna Philharmonic Orchestra conducted by Herbert von Karajan. New Year's eve concert. Musikverein (658190). (Wed and matinee Thur).

Vienna Symphony Orchestra and the Singakademie conducted by Peter Schneider with Ana Pusar, soprano, Margareta Hintermeier, alto, James King, tenor, Ruggero Raimondi, bass. Beethoven's ninth symphony. Konzerthaus (Wed and Thur).

NEW YORK

Carnegie Hall: New York String Orchestra, Alexander Schneider conducting. Mozart, Haydn, Stravinsky, Wolf, Strauss (Mon). (247 7800).

New York Philharmonic (Avery Fisher Hall): Erich Leinsdorf conducting. Yefim Bronfman piano. Strauss, Debussy, Liszt, E. & J. Strauss (Tue). Lincoln Center (874 2424).

Merkin Hall (Goodman House): Hyung-Il Ahn tenor and In-Young Lee bass duo recital. Ponchielli, Tosti, Händel, Verdi (Mon). 67th w. of Broadway (362 8719).

WASHINGTON

Concert Hall: A Night in Old Vienna with Alexander Schneider and Friends. Viennese chamber music and ball (Wed). Kennedy Center (254 3770).

Exhibitions

ITALY

Venice: Palazzo Ducale: China In Venice: Chinese Civilisation from the Han Dynasty to Marco Polo (25–1279 AD): 150 objects, including silks, brocades, jewellery, terracotta figures, glass and porcelain lent by the Peking Museum. Many result from recent excavation, and most have never been out of China. The exhibition covers the main period of Chinese art, and the objects found in tombs, buried with the owner for his use in the hereafter, shed a fascinating light on life in the period. Ends March 1987.

NETHERLANDS

Laren, Singer Museum. Glass creations by Sybren Valkema. Ends Jan 18.

Groningen, Groninger Museum. The use of colour in modern European architecture from 1910 to the present. Ends Jan 25.

SPAIN

Madrid: Julio Gonzalez (1876-1942), Spanish cubist sculptor considered with Picasso the top exponent of this movement; 50 sculptures and 70 drawings on loan by the Ivam, Valencia's modern art museum. Ends Dec 30. Also Miro sculptures (1893-1983); 100 sculptures and 140 drawings on loan by Moma, Georges Pompidou, Miro Foundation and private collections offer a vision of Miro's sculptures of 1930-1970. Ends Jan 20. Both at Centro de Arte Reina Sofia, Santa Isabel 2. Open Tue to Sun: 10.00-21.00. Closed Mondays.

Barcelona, Georges Braque. A retrospective gathers 128 works – drawings, tapestries, sculptures and paintings from 1900 to his death in 1963. Ends Jan 25.

WEST GERMANY

Tübingen, Kunsthalle Philosophenweg 76: Toulouse-Lautrec. A retrospective of 130 paintings and picture studies by Henri de Toulouse-Lautrec (1864-1901). Ends March 15.

Münster, Westfälisches Landesmuseum, Domplatz 10: August Macke: To mark the 100th anniversary of his birthday, the museum, helped by the Macke archive and sponsored by the estate of Northrhein Westphalia, is displaying 160 paintings, 130 pictures, 70 watercolours and documents. Macke, born in Meschede (Westphalia), studied in Düsseldorf and Berlin under Lovis Corinth. He was responsible for a new art form before the First World War. In the spring of 1914, he went with Paul Klee and Louis Molliet to Tunis. In the same year, he was sent to the front in France, and died in action in Champagne. Ends Feb 2.

PARIS

Esteve: After important exhibitions in Germany, Switzerland and Scandinavia, Paris in turn honours the abstract French artist born in 1904. The retrospective consists of 116 paintings, 50 watercolours, nearly as many drawings, some collages and tapestries and shows Esteve's development. Influenced at first by Cubism and fascinated by Cezanne, he continues obstinately on his own solitary road until he achieves an equilibrium between a rigorous composition and an explosion of colours. Grand Palais, Closed Tue, Ends Jan 12 (4256 0924).

Musée d'Orsay. The spectacular museum of the 19th century is situated opposite the Tuileries Gardens within the metallic structure and the glass-roofed vault of the vast Belle Epoque railway station. It houses paintings, sculptures, *objets d'art* and photographs from the end of the romantic period to the beginnings of modern art and the impressionist and Post-Impressionist collections formerly in the Jeu de Paume. Here they are counterbalanced by academic painters, their contemporaries, long derided for their pomposity.

The sculptures come into their own in the immensity of the nave, at the end of which is a large-scale model of the opera and its district below glass tiles. The view of Paris from the terraces is an additional delight. Musée d'Orsay, Entrance 1, rue de Bellechasse (4549 4814). Closed Mon.

VIENNA

Gold and Power – Spain in the new world: To mark the 500th anniversary of the discovery of the Americas, this huge exhibition of treasures from the Museum of America in Madrid tells the story of the Spanish conquest. The collection, seen for the first time outside Spain, includes ornaments and utensils of indigenous Americans, beautiful Mexican mother of pearl pictures of the blood-and-thunder of the conquest, records of Jesuit missions in Paraguay and stunning gold statues and jewellery from a land mythologised as El Dorado. Vienna is the first stop for this exhibition, which will later travel to Cologne and Budapest. Kunstlerhaus. Ends Jan 25.

NEW YORK

Metropolitan Museum: 90 paintings from the end of Van Gogh's life are the focus of this second of a two-part show of the prolific artist at Saint-Remy and Auvers. The Starry Night and Cypresses come from this period working first in an asylum in Saint-Remy and then in Auvers, where he committed suicide in July 1890. Ends March 22.

CHICAGO

Art Institute: The art of Italian Renaissance armourers, with suits embossed with Greek and Roman deities and fantastic creatures of the artists' imagination, is on display in a special exhibit of French king Henry II's armour borrowed from Hever Castle. Ends Mar 1.

TOKYO

American Pop Culture Images Today with works of 60 American artists the exhibition also features a live concert, videos, junk food corner and other aspects of the American pop culture since much has been grafted on to Japan's youth culture by now, the exhibition should reveal the extent to which the original has been changed for Japanese taste, i.e., japanised. La Foret Museum in Harajuku. (475 0411). Ends Jan 17.

Arts news in brief . . .

In spite of fears of a drop in museum and gallery attendance figures for 1986, the National Gallery looks set to achieve a record 3m visitors for the second year running.

This is due, in part, to the exceptionally high attendances during October and November (approximately 300,000 for both months, the highest figures for five years) when the exhibition "Dutch Landscape: The Early Years" attracted nearly 125,000 visitors.

★

The National Ballet of Canada returns to London after an eight-year absence to give six performances at the London Coliseum from June 30 to July 4 next year. The company was last in London at the Royal Opera House in 1979.

The 1987 programme will include Glen Tetley's ballet *Alice*, George Balanchine's *Serenade*, and another short work to be announced.

★

The Worshipful Company of Goldsmiths will display works by art nouveau jeweller Rene Lalique from May 28 to July 24 at Goldsmiths' Hall.

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Monday December 29 1986

The prospects for arms talks

INTERNATIONAL developments during the last few months of 1986 have led to greater tension, rather than the hoped-for improvement in East-West relations. Yet there are indications that prospects for 1987 are significantly better than the bare record of events since October might suggest. Temporary setback though it undoubtedly was, the Reykjavik summit may well have set the US-Soviet nuclear arms control negotiations on a more realistic and productive course after the brief and heady dreams of a nuclear-free world.

Both President Reagan and Mr Gorbachev know that, short of war or a dangerous state of permanent tension, a *modus vivendi* has to be found between the US and the Soviet Union and that an arms control agreement must form the crux of any arrangement. It would be astonishing indeed if, during the last two years of his presidency, Mr Reagan did not try to achieve something which would assure him an honoured place in history and help to wipe out the stain on his reputation of the Iran arms sales affair.

For Mr Gorbachev, the imperatives to reach an arms control agreement with the US are somewhat different, but at least as strong. The Soviet leader has made nuclear disarmament into one of the main planks of his foreign policy and therefore badly requires a success in this field to bolster his position in the Communist Party and hierarchy. At least equally important is the need to divert scarce resources from arms production to the modernisation of the economy, another of the Gorbachev priorities.

Stumbling block

Though the Geneva nuclear arms control negotiations have remained stalled in the aftermath of the Reykjavik summit, no doors have been slammed by either the US or the Soviet Union. One of the main stumbling blocks—Washington's refusal to accede to Moscow's demand that any agreement must include the abandonment of President Reagan's space-based defensive system (SDI), has not prevented Mr Gorbachev from making gestures aimed at improving the general East-West climate.

The Nato allies have always maintained that arms control negotiations can be successful only if they take place in an overall context of better East-West relations and that this must include, as a priority, an improvement in the human rights performance of the communist bloc. This has been a constant theme not only at the various European security and co-operation follow-up conferences, but also at Nato ministerial meetings, such as the one in Brussels earlier this month.

Whatever domestic reasons, Mr Gorbachev may have had for adopting a more liberal policy towards Soviet dissidents, such as Dr Andrei Sakharov, he is certainly sensitive to the international implications of such a move. Inadequate and limited as the recent Soviet measures are, they at least appear to indicate that the West's message on the link between arms control negotiations and humanitarian questions is being taken on board in Moscow.

European allies

If that is indeed the case, it suggests that Mr Gorbachev has not been permanently discouraged by his Reykjavik experience and feels that it is still worth trying to reach an arms control agreement with the US while President Reagan is at the helm. The Soviet leader may well consider that an outgoing US President, intent on burnishing his image, would be imbued with a greater sense of urgency than his successor, who would take some time to find his feet.

As a result of the complaints by the European allies that Mr Reagan did not take their interests sufficiently into account in Iceland, the Nato arms control negotiating stance has been clarified and refined to an unprecedented degree. That is a factor which should prevent unwarranted illusions about what could be achieved at another summit, such as the ones that prevailed at the Reagan-Gorbachev meeting in Reykjavik. But a greater sense of what is possible might lead to better practical results in 1987 than in 1986.

Laws for the music industry

THE BEST starting point in any trade dispute is to back the side which offers consumers what they want. That is why the Japanese appear to have the best of the arguments in what could turn out to be a bitter wrangle with their western trading partners over a new music medium, known as digital audio tape.

The system, developed by the Japanese, offers the same high quality sound as compact discs in smaller and hence more convenient packages. Its crucial advance will be to allow consumers to record music with almost no loss of quality. Compact discs, by contrast, can only play, not record music. The Japanese have been ready to launch the new tape system for some time, but they have been held back in part by the vigorous campaign waged against it by the music industry in the US and Europe.

Copyright incomes

Western music companies fear the perfect copying abilities of digital audio tape will result in an explosion of taping by consumers at home and hence drain their copyright incomes. They have lobbied both the US Government and the European Commission for legislation to require all digital machines and tapes to have an anti-copying device, known as a spoiler.

There is no dispute about the advance which digital audio tape represents: the music companies acknowledge that it is a technological breakthrough. Neither is dumping an issue: there is no digital audio tape industry in Europe or the US to be undermined by cheap imports. The music industry insists that the new sound system will not damage sales of compact discs, now beginning to take off, because the two can co-exist. Nor is there any real dispute about how consumers would vote, if given the chance. The music industry says that consumers must be protected against their worst instincts, which would be to use t:.: new system for home taping, because their longer term interests would be damaged: this, their best argument, would cut no ice with the average consumer.

That is why the Japanese were more convincing at the first top-level meeting between the Japanese electronics industry and the western music companies held in Vancouver earlier this month. They said, correctly, that consumers have the right to enjoy the latest technology if that improves the quality of the music available to them.

The Japanese were right to reject out of hand the music industry's plea to support the request for spoiler legislation. An anti-copying device introduced indiscriminately into all digital machines and tapes would, as the Japanese argued, negate the key advance made by digital audio tape technology.

The problem is that copyright legislation throughout the western world is in a mess. In Japan, home taping is not illegal. In other countries ,such as the UK and Australia, home taping is against the law, but it is a law more honoured in the breach than in the observance. A third group of countries, which includes West Germany and France, has recently introduced a levy on blank tapes, the proceeds of which are supposed to flow back to copyright holders.

That points to the need for an agreement among the countries representing the major markets on a legal framework which would both legitimise the universal practice of home taping and protect the reasonable interests of copyright holders. It would cover both analogue and digital sound systems and hence would not be restricted to the new digital audio tape system.

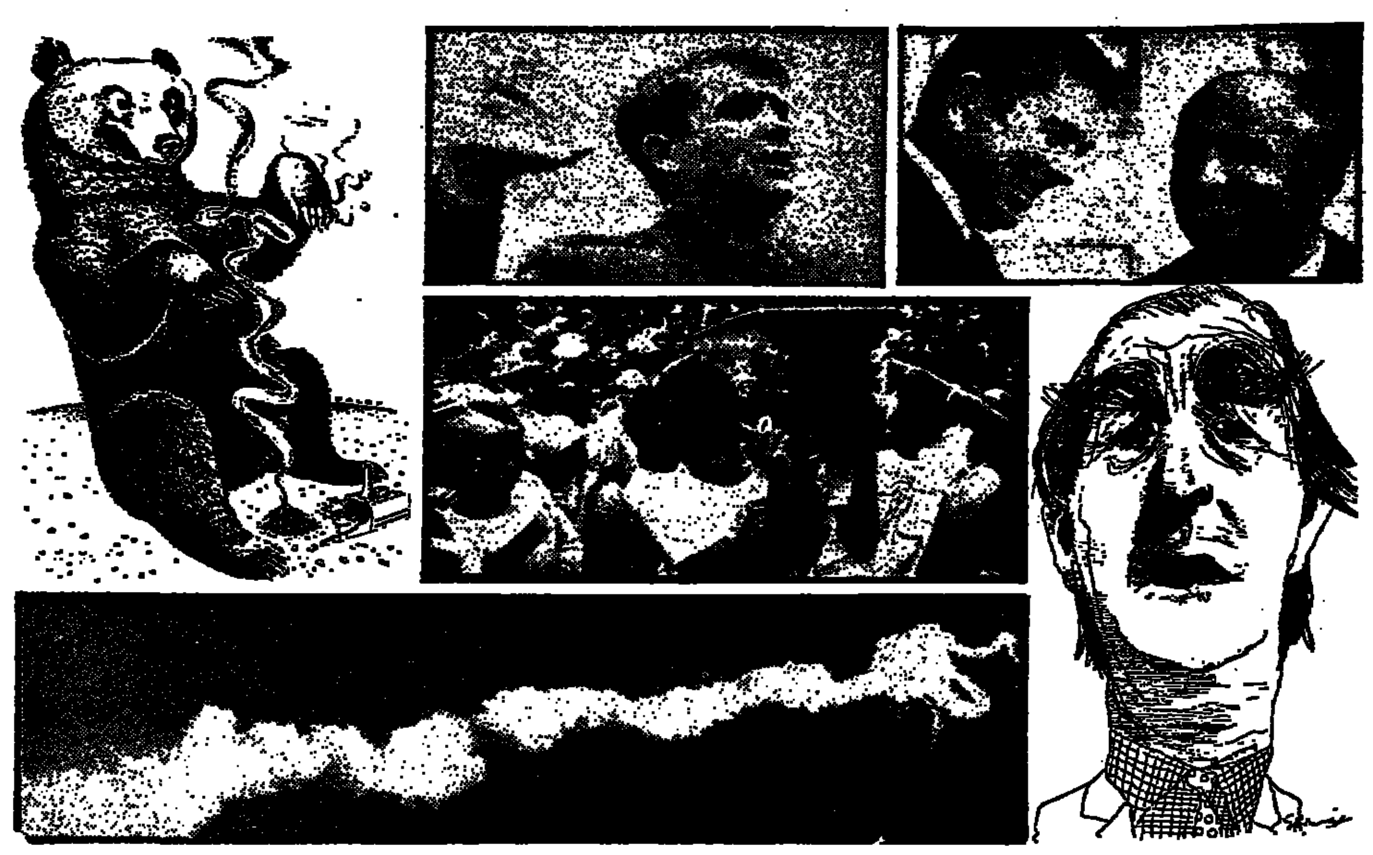
The European Commission, which has been considering these problems for a very long time, is now talking of issuing a green paper on copyright issues early in the New Year.

Two classes

One compromise solution now being canvassed is to have two classes of tapes and discs. One would be more expensive because it would be encoded so as to allow copying; the other would be cheaper because it would not be copiable. The idea has several advantages, including allowing consumers to choose whether they want to copy or not, and making it easier to pay royalties from copying to the exact copyright holders. Only further debate will determine whether it is a workable compromise. But legislators in the US and Europe probably have a good year before digital audio tape machines reach their shores in any great numbers. If they move quickly, they may have the chance to get the appropriate framework in place for a new technology before, not after, the event.

Foreign Affairs: Ian Davidson

Turning points



WHEN THE man comes to write it down in the history book, I think he will tell us that 1986 was an important year; not just because a lot of things happened, but because a lot of things happened that were important turning-points in important sectors of the world scene. Some years are positively dull: in 1976, for example, did anything happen at all—apart from the election of Jimmy Carter to the US Presidency and the birth of my daughter (and only the second of these was in the least significant)? By contrast, 1986 was a vintage year for a succession of mega-events that was fast and furious, and which contained a remarkable number that fall, as I say, into the Turning-Point category; and this is not, I hope, just an illusion attributable to the fact that 1986 is not yet quite in its grave.

In my Critic's Choice for 1986, I should like to nominate seven Turning-points; but first a word about a number of candidates which failed to reach the short list.

The year ended as it began, with a blazing political controversy in Britain over defence procurement; but I think it is doubtful whether either row will leave a lasting mark. In the case of the Westland helicopter company, Mrs Thatcher was able to block the rescue proposal put forward by the European consortium, and to hand the company over to Sikorsky.

With hindsight, it is hard to know why she cared so much about a preference which cost her two Cabinet Ministers, when she was not prepared to take that extra step which might have made it all seem cost-effective; but since the Ministry of Defence has not placed an order for Sikorsky Black Hawk helicopters, Westland's underlying problems remain much as they were before.

At the same time, however, the Westland crisis does not seem to have had a terminal effect on British defence collaboration with Europe. In other words, a political battle which had the rest of Europe transfixed with amazement, turns out not to have had any serious significance—except for the political careers of Michael Heseltine and Leon Brittan, and the reputations of some civil servants, including the Prime Minister's press secretary, Mr Bernard Ingham.

The uproar over the choice between the Nimrod and the Boeing early warning radar aircraft looks even less likely to have long-term importance, despite the protests from a large number of Tory MPs that the Government should buy British; unless, of course, you believe that the main effect of the *Westland* crisis was to persuade Mrs Thatcher thenceforward to put a poultice on her reflexive temptation to interfere in everything and anything, and on *this* occasion to immunise the decision by tying it with the ribbon of national defence.

Also into the category of excessive expectations comes the general election in France. Obviously, the Chirac government's economic programme of liberalisation and privatisation is very different from that of its socialist predecessor; but the *political* reality is that it is constrained as much by its *narrow majority* in the National Assembly as by its cohabitation with a socialist President, and that while France may be conservative with a small "c," it is not ultra-right-wing.

More interesting among the Non-Turning-Points is the puzzle of the Soviet Union. In January Viktor Grishin, former Moscow party boss, was dropped from the Politburo; in December Dinmukhamed Kunayev was removed as party boss in Kazakhstan, and will doubtless soon disappear from the Politburo; and in between there was as regular a stream of sackings, retirements and transfers as in the first nine months of Mikhail Gorbachev's tenure in the top job.

Yet it remains unclear how far he is getting his own way on domestic policy, or even (in view of the tameness of the proposals at the 27th Party Congress) how far he wants to go. There has been a degree of liberalisation for small businesses, and the head of the state price commission has been removed; yet as late as October Mr Gorbachev was publicly complaining that the conservatives were obstructing his attempts at economic reform. But perhaps in a country as riddled with bureaucracy and perks as the Soviet Union, it is an error even to think in terms of Turning-Points: perhaps they are stuck in an ideological and apocalyptic time-warp from which they are condemned never to escape.

There were a number of other strong candidates which did not finally make it. The Peter Wright-MI5 court case in Australia provided wonderful entertainment, and succeeded in giving the maximum possible *publicity to allegations which* the British Government was ostensibly trying to keep secret; it also prompted the question, after his Westland performance, whether there was any length to which Sir Robert Armstrong would not go to please Mrs Thatcher. But this was not a turning point: we can be [illegible] than MI5 will not be reformed; we know that we can have no final certainty on who were the past traitors; and we can be sure that Mrs Thatcher and her friends will continue to believe passionately in the importance of keeping government secrets, except when they are leaked by Mr Bernard Ingham.

There was a brave try from Hanoi, where the top three leaders in the Politburo resigned simultaneously, apparently because they had given up hope of improving Vietnam's appalling situation; but I am afraid we can't include it, because we do not know if the next lot will do any better. Perhaps the moral is that both sides lost the Vietnam War.

Enough of this: to my list. I nominate South Africa, Chernobyl, Challenger, Reykjavik, Irangate, the European farm policy and Aids as my seven Turning-Point stories of 1986.

From one point of view, the South African story did not develop dramatically differently in 1986 compared with 1985, in the sense that there was a fairly steady continuity in terms of violence and state repression, culminating in the latest clampdown on the press. But from an international perspective, it seems clear that a vast chasm started to crack open in 1986 between South Africa and the western world, and that it will not close again until either the Pretoria Government goes much further to abandon apartheid than it has been willing to do until now, or it is replaced by an entirely different kind of government.

The opening up of the chasm has come in three phases: the cutting off of bank loans; the imposition of economic sanctions by the European Community, by the US and by Commonwealth countries; and most recently the disinvestment by major multinational companies. In practical terms the most significant action was that of the banks; but in political terms it was that of the governments, because they have now spelled out demands for political reform, which must constitute a minimum benchmark for the future. Whatever the merits of economic sanctions or political demands formulated by foreigners, it seems clear, after the visits of the Eminent Persons' Group and of Sir Geoffrey Howe, that President Botha rejected the possibility of compromise with the blacks.

The Chernobyl and Challenger disasters were sensational, not just for reasons of horror, but because of their self-evident repercussions on technology, domestic politics and foreign policy.

The Chernobyl reactor explosion, the worst nuclear accident ever, spreading radiation in a wide swathe around Europe, was significant on several grounds: it cast new doubt on claims by nuclear power lobbyists everywhere that their industry could be inherently safe; it threw a harsh light on the design, the engineering or the operation of the *Soviet* nuclear power industry; it posed an awesome test for Mr Gorbachev's new policy of openness, a test which (after a delay of a week) he passed with flying colours; its implications are bound to add to the problems of Soviet energy policy; and it has added to world-wide anxiety about nuclear weapons.

The Challenger explosion killed only seven people, compared with an indeterminate number yet to come from Chernobyl, yet its implications are in some ways rather similar. Space travel is not, after all, a risk-free routine; the shuttle turns out to be what it looks like — a Heath Robinson contraption; Nasa was desperately under-managed; Europe, Japan and China now have great opportunities to grab a bigger share of the space business; and if it is true that the shuttle barely escaped a similar accident on several previous occasions, how on earth can we give any credence to Ronald Reagan's Star Wars scheme?

The Reykjavik summit remains a puzzling vortex of ambiguity. Ostensibly, the two leaders discussed and nearly agreed either the elimination of all *ballistic* nuclear missiles, *or* the elimination of all nuclear weapons; ostensibly, this near-agreement was blocked by disagreement over Star Wars.

Yet any fool knows that the two superpowers would not in practice sign such an agreement. The Russians would not leave a monopoly of nuclear weapons in the hands of three adversaries (Britain, France and China). What about the undeclared nuclear powers, Israel, India, Pakistan? How could you verify the elimination of all nuclear weapons? Does anybody seriously imagine that the US Senate would ratify such a deal?

On the other hand, I do not imagine the two men were playing an empty game. So my hunch is that the talk of total nuclear disarmament was a metaphorical negotiation to explore the possibility of a radical transformation of superpower relations, starting with an effective renunciation of the nuclear threat. The summit reached an impasse; but if radical politics was the purpose behind the Gorbachev manoeuvre, we should not assume that he will drop the idea just because he was turned down once by Ronald Reagan.

By contrast, The Case of the Fifth Amendment is not in the least puzzling — just appalling. We always knew that President Reagan was a bit weak on policy, and a bit short on management; we always knew that his administration was the least co-ordinated, the least disciplined Washington had seen for years; we always knew that it contained some right-wing loonies who passionately believe that the Contras are good guys; we always knew the CIA was addicted to dirty tricks. It turns out that the situation is *much* worse than we thought.

President Reagan's presidency must now be terminally weakened, because there will be no rapid end to the inquisitions: it even begins to look as though the space shuttle will fly again before the Senate gets through investigating every nook and cranny of President Reagan's foreign policies, every aspect of his Administration's procedures, every delinquency of his underlings. But since the problem is Ronald Reagan, it is insoluble.

We can approve those would-be friends of America and the Atlantic Alliance who call for an early return to normal, because a weakened American presidency is not in the interests of the West, and if the inquisition goes on too long, it *may* tempt him into alarming populist adventures; we can approve, but we know they are whistling in the dark.

I've taken a bit of a flyer by including last month's decision of the European farm ministers to cut into milk and beef production. Reform of the farm policy has been talked of since 1968, but in the past whatever the farm ministers have done has had zero effect on the surpluses; surprise, surprise! This time *may* be different, because the balance of opinion has at last turned against the farmers, because the Community's financial crisis is far worse than it has ever been, because the US is making threatening noises, and because the French are now net contributors to the budget. Well, anyway, let's keep our fingers crossed.

Aids is not a totally new phenomenon, but 1986 was the year when governments, prudes and the happily married suddenly woke up to the fact that this disease risks becoming an engulfing disaster. Mr James Anderton, Chief Constable of Manchester, seems to blame it on the degeneracy of our society; which is, unfortunately, the kind of opinion you would expect from a policeman.

Well, that's the list of winners. When you remember that I've left out the ostracisms of Ferdinand Marcos and Baby Doc Duvalier, the release of Anatoly Shcharansky, the US bombing of Libya, the death of Samora Machel and the senseless murder of Olaf Palme, not to mention the wedding of Sarah Ferguson and that dark-haired young man, then I think you will agree that 1986 was a pretty busy year.

Men and Matters

Under starter's orders

Australia's inveterate gamblers may soon be able to combine punts at the racecourses with those at the stock exchange. Plans are being made to float a well-known thoroughbred training operation headed by ToJo (Tommy) Smith, and there is talk of a second.

The ideas come hard on the heels of another unusual proposal — to set up a market for the trading of interests in thoroughbred stallions. The plan for the Australasian Bloodstock Exchange, as it will be known, is thought to be a world-first for Australia, and is said to have attracted considerable interest.

Certainly, it is a sign of how far the Australian thoroughbred industry has come in recent years, thanks many would say, to the drive of men such as Robert Sangster. Other well-known entrepreneurs such as Alan Bond and Robert Holmes à Court are also deeply involved in the highly lucrative racing and bloodstock businesses.

Smith, 67, is one of the most successful trainers in the country. Since news of his plan broke, there have been suggestions that one of his great turf rivals, Bart Cummings, may become involved in a separate flotation.

Merchant bankers, accountants and brokers are now conducting the necessary feasibility studies in preparation for the underwriting of the Smith float. Official approval is still needed, but his backers hope the new company will come to market next month.

"You are given an inside tip by a civil servant—go immediately to jail"

Flow charts

British universities are routinely chastised for refusing to soil their hands with the unpleasant realities of the industrial world. But the Government's award programme aimed at increasing the technology flow between the academic world and industry has this year equally underscored the reluctance of UK companies to become involved with academics.

The £20,000 Industry Year award for technology transfer has gone to a Manchester University unit whose funding has come largely from big overseas-based multinationals — Exxon, Dow and Dupont of the US, BASF and Bayer of West Germany and Elf of France. "There are some UK companies which could have usefully joined the scheme, but I had a great deal of difficulty in recruiting in this country," says Professor Bodo Linnhoff, head of the Centre for Process Integration at Manchester.

Linnhoff's group won the award for developing a scheme which, he claims, allows the academics in the programme to keep control over their research, while transferring the results more swiftly to industry than would normally be the case.

He set up the centre after a spell at ICI applying new methods of energy conservation he had developed theoretically as a research student. The technique, he claims, saves companies up to 25 per cent of their investment in new plant and 50 per cent in operating costs. But the longer he worked at ICI, says Linnhoff, the more he realised the development would become the property of the company alone. "It was obvious that the technique was significant beyond the boundaries of one company, and I wanted to continue research and be free to publish the results," he says.

It was also something of an accident Linnhoff was qualified to apply for the award. West German by birth, he worked on aircraft design at home and in Switzerland before coming to the UK in the mid-1970s to do research at Leeds University. He has remained, he says, because he likes the "absence of red tape in Britain."

Nixon's base

Sir Edwin Nixon, chairman of IBM UK, is an outspoken proponent of the view that it would be a disaster for the UK to abandon its manufacturing base and hope that service industries could compensate for the loss. Given this attitude, his decision to accept a post as part-time chairman of a modestly-sized Southampton-based company, Lloyd Instruments, is not as odd as it looks at first sight: small Lloyd may be, but it is doing all the things Nixon supports, such as designing sophisticated high-technology products, exporting them vigorously—70 per cent of its sales are overseas—and growing steadily by ploughing back money into research.

The Lloyd appointment follows Nixon's decision at the beginning of this year to relinquish the chief executive role at IBM UK and confine himself to the role of non-executive chairman. Aged 61, he now works roughly three days a week at IBM, and his other directorships are also at big companies —the National Westminster Bank and the Royal Insurance company. Lloyd, with annual sales of only £8m and just 200 workers employed in making materials testing machinery is a minnow by comparison. But he says it is "the type of business this country needs to foster in order to regenerate its manufacturing base."

Judges rule

Britain's manufacturing base may be shrinking, but the judicial bench is still a growth area for employment opportunities.

The Lord Chancellor's department reveals that 50 new circuit judges, sitting in Crown courts and county courts in England and Wales, have been appointed this year.

It is the highest number in any one year since 1972. The department explains that the flurry of new appointments fulfils the intention of the Lord Chancellor, Lord Hailsham, to increase the circuit bench by 10 per cent.

As usual, male barristers predominate in the new appointments — they have 41 of the 50 places. The other nine are solicitors—a continuing imbalance that will neither please nor surprise that branch of the legal profession.

A similar reaction can be expected among women lawyers. Only three women—two barristers and one solicitor—are among the new appointees.

However, the department says that increases in the workloads of the courts means that additional reinforcements to the ranks of the judges will continue to be needed.

In the language of the race course rather than the courts that means that solicitors and women lawyers still have a chance to nobble the dominance of the male Bar.

Observer

A WORD OF ADVICE

From **Michael Coveney** to Sir Peter Hall, National Theatre director, and from **Quentin Peel**, who drafts a speech for Jacques Delors, president of the European Commission

A few ecus more . . .

LADIES AND gentlemen.

I come before you in the European Parliament at the beginning of my third year in office, having just had the honour of being confirmed. for another two years. Thank you for your kind words of congratulation, although I could have done without them last month in front of Mrs Thatcher, when all you offered her were brickbats. Our relations are difficult enough without your help.

As it is, I fear I need more commiseration and sympathy. 1987 is going to be a very difficult year for the European Community. I fear it will be a year when the chickens, to use an appropriately agricultural metaphor, come home to roost.

Bearing that in mind, I believe the time has come to spell out a few home-truths to all the institutions involved in building this Community, and above all to the member states and their governments.

First, we have all got to learn to live with the Single Act. That is not, as some of the wits among you appear to believe, a new cure for Aids but it should improve your political health. It is the rather messy and cumbersome compromise package of reforms of the Treaty of Rome, designed to make decision-making speedier, by having more majority voting; and more democratic, by giving a bigger role to yourselves in the European Parliament.

With the new rules providing for a second reading in the Parliament, the system could end up more cumbersome rather than less: that is your responsibility to resist the temptation to insert frivolous amendments, and sort out your own interminable party-political point-crossing. It will not help if each institution defends its powers too jealously.

For my part, I confess to having got rather carried away with the awful subject of "comitology"—the committee system which runs so much of day-to-day life in the Community—in order to try to speed up decisions in the whole grey area between Commission proposals and Council decisions. For my New Year's resolution, I promise to be less fanatical about a subject which no ordinary person can possibly understand.

Second, I must turn to the budget. We cannot avoid it. Any progress with new policies, new hopes of integration and increased co-operation, depends upon it.

As I told the heads of government in Downing Street last month, we have all been cooking the books for years, putting off the evil day when the consequences of spending beyond our limited resources would catch up with us. This year I am convinced it will happen.

I must be honest. I want more money for the Community budget, and I want it in a way that means I do not have to keep running back to the national capitals to ask for a *few Ecus more*. But I know that if I am going to get anything like a reasonable long-term deal from the major contributors — which means West Germany, Britain and France—I will have to prove I can manage the cash wisely.

At the other end of the spectrum, I have to persuade the Mediterranean countries like Italy, Greece and Spain that the Community means more than just a common market: they are all clamouring for more money to be spent on social and regional policies. Mr Papandreou puts a price on practically anything he is asked to do, as you know.

I am putting forward a package of ideas designed to prevent any member state being driven into a corner too quickly. But those heads of government are all so hot-tempered, they do not exactly help. It includes reform of agriculture, a shake-up of social and regional spending so that the money goes where it is needed, and a bid for more money in the long term.

We have made a start on agriculture. I must admit I am not too sure we are going about it the right way. I think the whole policy should be biased much more in favour of the small farmer, and leave the big boys to fend for themselves. I do not think anyone can be sure that cutting milk quotas, and cutting a few Ecus from intervention prices, will balance supply and demand. Improvements in productivity are overtaking us before we have even moved.

Then I am under enormous pressure from France, and no Commissioner, not even the President, can ignore his own home state. We can't simply slash farm spending regardless of the social consequences, as the British sometimes seem inclined to do.

This terrible triumvirate — Britain, Germany and France — is ganging up together more and more. They won't let my research programmes through without decimating the cash content. They block perfectly good proposals to get more student exchanges and university links across frontiers for want of a few million ecus.

They have got to realise that the budget is not the be-all and end-all of Community life. If they want their common market, and more political co-operation from the EEC in the UN and other places, they are going to have to pay something for it.

I have invented some Euro-jargon for that. I call it cohesion.

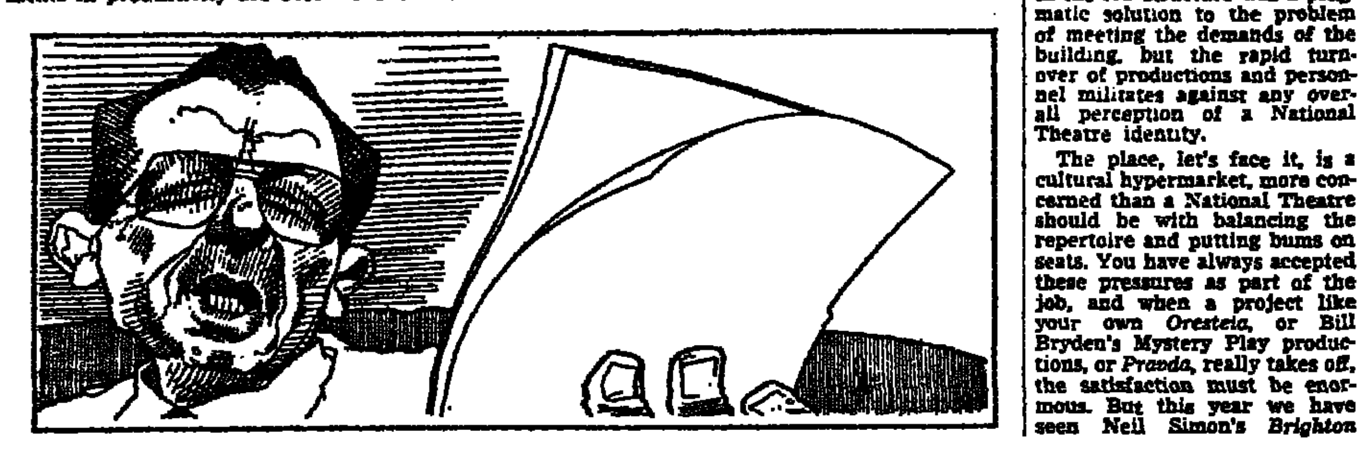
I know what I want to do this year. I want to get on with developing the European Monetary System and liberalising capital movements. To do that I need to persuade Mrs Thatcher to bring sterling into the exchange rate mechanism: I know she won't do it before a general election, and the other problem is we are barely on speaking terms since we clashed here in Strasbourg last month.

I want to have a coherent industrial *policy*, but I belong to a *dirigiste* French tradition, and a majority of my Commission are for *laissez-faire* policies and strict enforcement of the competition rules. So I am always at loggerheads with Peter Sutherland, the Commissioner for competition, which does not look very good to the outside world, and leaves everyone confused about where we are going. I will try harder.

We must maintain our common front on external relations, taking a tough attitude on trade with both the US and Japan. American protectionism is a real threat which must be countered with retaliation every time.

The coming year is going to be very difficult for taking the necessary long-range decisions because so many member states have national elections. Let us hope Bonn will be more co-operative once its poll is out of the way this month. Then there are going to be others in Italy and Britain, *not* to mention Ireland, and culminating in the French presidential election in 1988.

The danger is that no-one will be prepared to take decisions until all those votes are out of the way. If they don't, we will be even more bankrupt than we are already, there will be no new policies to beef up this Community of ours, and my Commission will be in danger of being a lame duck for the rest of its term of office.



Sacrificial rights . . .

Dear Peter,

MOST of your plans for 1987 are already formed, some of them announced, but why should that minor detail deter a critic from telling you what you should be doing and where you are going wrong? Your contract expires on December 31, 1988 and over the next two years you will want to see your successor *safely* installed and yourself retiring in a blaze of glory. You will then be 58, time still, as you have said, for one more big administrative job.

This has not been one of the National's best years. The Ian McKellen and Edward Petherbridge company was disbanded in May after visiting Chicago, the audience figures dipped in the summer and there was that malicious campaign against both you and Trevor Nunn of the Royal Shakespeare Company over private fortunes allegedly amassed in the exercise of public duty.

The vaguely autonomous company system you initiated within the NT structure was a pragmatic solution to the problem of meeting the demands of the building, but the rapid turnover of productions and personnel militates against any overall perception of a National Theatre identity.

The place, let's face it, is a cultural hypermarket, more concerned than a National Theatre should be with balancing the repertoire and putting bums on seats. You have always accepted these pressures as part of the job, and when a project like your own *Oresteia*, or Bill Bryden's Mystery Play productions, or *Pravda*, really takes off, the satisfaction must be enormous. But this year we have seen Neil Simon's *Brighton Beach Memoirs* unwisely dislocated from its Brooklyn Jewish environment, a *Threepenny Opera* of anodyne, featureless extravagance, an *indifferent* Tom Stoppard adaptation of Molnar's *Leibelei* and your own production of a tame two-hander *The Petition*.

I list four shows I happened not to like and I concede that you could easily defend them individually as indicating a responsibility to cater for all tastes. Neil Simon, Brecht and Molnar, certainly, should be represented by a National Theatre, although Howard Brenton might dispute the inclusion of two of them and remind you of his view that there is *simply* no continuum between Alan Ayckbourn and Trevor Griffiths.

This problem of doing work out of a sense of responsibility rather than passionate belief must be weighed against one of the NT's declared functions of showing the best of all world drama. Kenneth Tynan, when he was Olivier's literary manager in the 1960s, prepared a list of 400 plays that any National Theatre should consider producing. I dare say you have something similar, but this year the repertoire strikes me as having been compiled a trifle too whimsically.

I am glad the new group under Di Trevis's direction will kick off with a splendid unknown Moliere, *School For Wives*; that Michael Gambon will play Arthur Miller's Eddie Carbone in the Cottesloe; that Jonathan Lynn's group will persist in dusting down old Broadway comedy with a revival of *Three Men On A Horse* by George Abbot and John Cecil Holm; and that yet another new group under Michael Rudman will present a new version of Pirandello's *Six Characters In Search Of An Author*.

But there are too few acts of enlightened, dangerous excavation. You brought a fine poet, Geoffrey Hill, into the theatre to work on Ibsen's *Brand*. But the choice among both Ibsen and Shaw is always safe. You should be thinking in terms of *The Pretenders* and *Pillars Of Society*.

Alan Ayckbourn's superb revival of *Tons of Money*, the first Aldwych farce, was a fine example of matching personal obsession with public duty. There is no reason why such an enterprise should not be declared part of a will to investigate British farce and comedy in more depth:

A National Theatre should be more openly engaged in popular past and present; you are sadly out of touch with all fringe, dance and political theatre since Hare and Brenton, themselves now middle-aged men. Your attempt to come up to date with Sarah Daniels in the Cottesloe this year was a sorry sight.

The International season which opens next year with Jason Robards in *The Iceman Cometh* is a welcome innovation and although you say persistently there has never been enough money to bring foreign and regional shows onto the South Bank, as well as to tour your own productions around the country as much as you would like, it is imperative that the NT finds a way to break its metropolitanism and cultural xenophobia.

Terry Hands once explained the lack of foreign guest directors at the RSC by saying their fees would be exorbitant. Now that Peter Stein, Andrei Serban and various other distinguished European directors have worked for peanuts with our Welsh and Scottish Opera Companies, that canard is lame. It is all very well importing Bergman's *Miss Jule* or Stein's *The Hairy Ape*; but how about mixing your own actors with such visiting maestri, as Olivier and Tynan used to do at the Old Vic? The Lyric Hammersmith's *The House of Barnarda Alba* directed by Nuria Espert and designated by Giorgio Strehler's design team in Milan was a reminder this year of what can be done.

Finally, in defending yourself against the Sunday newspaper allegations last summer and in lucidly outlining the basically healthy mixed economy system that operates between the commercial and subsidised sectors, you delivered yourself of a striking, slightly alarming statement: "In these monetarist days, the idea of happily working for glory only, for prestige only, is gone for ever."

Is it really? So much the worse for the theatre. No one should work for negligible financial rewards, though many, especially in the theatre, do. It worries me slightly that your chosen successor, Richard Eyre (an appointment to be ratified by the board), has a television and film career to juggle alongside the enormous demands made on anyone running any theatre, let alone the National.

We need a period of absolute unsullied commitment to the subsidised monoliths by those who run them. Great theatres only become great by the sacrificial activity of those who work in them.

One small point: although your theatre programmes are more legible and more interesting than the RSC's, they are not nearly good enough, nor are they worth 70p. Again, the National at the Old Vic sets the standard. Apart from that, and the price of drinks at the bars and the lack of seating space in the Lyttelton foyer, no more complaints. For now.

Letters to the Editor

Insider dealing

From Professor D. Myddelton

Sir, — Your editorial on insider dealing (December 20) concluded that "the overriding aim must be to ensure that honest investors get a fair deal." But how are honest investors harmed by insiders?

I recently sold some shares in Chloride; but if a bidder had appeared next day I could not have "blamed" anybody else for my ignorance. If an "insider" (who knew about the coming bid) had been buying on the same day on which I was selling, there would still have been no cause for complaint. Indeed, I might have got a slightly higher price for my shares as a result!

Well-informed speculation is normally regarded as a good thing. It speeds up the absorption of relevant information into the market price, and thus helps improve the usefulness of price signals. If speculators *on* balance make profits, they help to drive market prices sooner towards levels they would otherwise have taken longer to reach. Surely that is desirable, and should increase everyone's confidence in the reliability of market prices.

(Professor) D. R. Myddelton.
Cranfield School of Management,
Cranfield, Beds.

The Portuguese economy

From Mr R. Dias,

Sir, — With reference to letter under "Problems involved in the Portuguese economy" (December 16), permit me to recall, that after the 25th April 1974 revolution, Portugal was faced with untold difficulties in addition to those caused in absorbing within three months over 850,000 returnees, from the former Portuguese territories in Africa—an increase of almost 10 per cent of its entire population. The reserves from the Portuguese coffers were almost depleted and the Portuguese economy was in shambles. The constant change in governments further deteriorated the economic situation in Portugal.

Within this context the fact the economy has stabilised this year, the interest rates are lowered to below 20 per cent and the inflation is down to 12 per cent is a reason to be "optimistic", as it indicates that Portugal finally appears to be on the right track to get its economy in order. It is laudable to encourage Portugal with constructive appraisals such as that of November 17, so that the momentum be maintained in doing away expeditiously, with legislation that deters the rapid development of its agriculture and its industry.

The definition of "muddling through" given by your correspondent M Anne Pitcher is indeed thought-provoking. The definition may reflect the true situation which definitely is not to be "admired". However, the truth is that this little country, that discovered two-thirds of the inhabited globe, does need greater assistance from the EEC and in this regard your correspondent appears to have made a good case on behalf of Portugal and strengthened it by adding that the Portuguese are "smart".

Roque Felix Dias,
The Cottage,
Ash,
Nr Sevenoaks, Kent.

Effective work

From Mr F. Tuckman MEP

Sir,—On December 16 you carried this answer "Tax cuts do not spur employees to work harder" to the wrong question. We aim at effective work; it need not be harder. Extra money to spend stimulates the desire for more, making people more willing to take the risk, to be adventurous, to excel.

What happens in industry springs from what a few managers and engineers decide long before the bulk of employees are involved. High returns and high morale imply going for a product which is one better than you now think reasonable or feasible. High morale and efficiency cause management to incur the extra risk, incorporate the more advanced feature, the better design for maintenance and replacement.

All too many British firms have a non-British machine park. Why? Because the competitors' product incorporates features and competences not designed into our own machines. We lack the appetite, the will and the discipline to excel.

Our work force could again be among the best, but we don't train enough, and we have a reduced pace of work on the job. In fact many a youngster is pulled up sharp by his workmates and supervisors, early in his first week at work for going too fast; he is showing up the group. Germans work shorter hours, but produce more at better and more ambitious quality. Increased take home pay just might stimulate greater appetite over the long run. It could focus attention on better results for "our firm," instead of diverting time and effort into industrial disputes, or into that comfort geared pace and the inadequately imaginative plan.

Above all we must communicate better both within each firm and nationally. Ours can be a high standard of living—for the asking. But that requires committed people. People who are trusted and who feel trusted. A virtuous circle builds confidence and success—pay is one of the ingredients in success.

Worst of all is our persistent secrecy. It destroys confidence, builds suspicion. The very fact that any one wants to suppress these findings is a crime. It shows that Ministers and Civil Servants still have not understood that elitism of this kind undermines the chance of building the team-will on which American and Japanese drive and success are based. Why do we always have to trip ourselves up?

Fred Tuckman.
6, Cumberland Road, SW13.

BTR's bid for Pilkington

From Professor J. Ashworth

Sir,—It is instructive to put David Fishlock's excellent article (December 18) on research and development in Britain alongside the reports elsewhere in your paper of the strenuous attempts by Pilkington Bros to fight off a takeover bid by a company whose senior executives are on record as denigrators of research and development.

We view with alarm the possible disappearance in all but name of a company with which we have had a long and invaluable association. The reasons for our dismay is reflected in our identification of Pilkington Bros as one of the few manufacturing companies in the north west region which has undisputed world leadership in its markets. We recognise that this position has been attained because the attention of the company has been directed to supplying those markets with innovative products and processes resulting from a commitment to continuous research and development; a commitment which implies considerable investment in long term projects Such commitment is all too rare in Britain and I hope that David Fishlock's report of the Government's belated recognition of this together with the related desire to do something about it may alter the corporate climate; not least to the benefit of those of us in the service industries who stand ready to help.

(Professor) J. M. Ashworth.
The University,
Salford, Manchester.

Mortgages and pensions

From Mr C. Thompson

Sir,—I believe that Mr H. Wynne-Griffith (December 17) misses the point of the pension mortgage.

If a house buyer borrows money he must pay interest (net of basic rate tax) to the lender. In a perfect world, the repayment of the capital would not be required until his death, but lenders are impatient people, and expect repayment of the mortgage after 25 years, or at retirement.

The borrower is then faced with the choice of repaying the capital over the term of the mortgage; from the proceeds of an endowment policy; or using the cash sum from his pension scheme (or retirement annuity policy): it is accepted that the most tax efficient way of providing for this repayment is from the pension cash sum.

If the borrower is already making maximum contributions for pension, that may be sufficient to meet the capital repayment: otherwise he has the option of an endowment or a repayment of capital mortgage.

Most borrowers are not making maximum contributions, and existing pension arrangements are not sufficient to meet this repayment of capital at retirement. It must then be in the interests of the borrower (be he a member of a pension scheme or self-employed) to repay the capital by making additional voluntary contributions to his pension scheme, or his retirement annuity policy.

Under the new legislation, pension mortgages are to be made available to all home buyers from April 1988. If the tax rules subsequently change, the borrower will have the option of changing to an endowment or a repayment of capital mortgage, in the knowledge that he has already had full tax relief on his contributions to date, and that the contributions invested in the fund will continue to earn dividends and interest, free of any tax, up to retirement.

C. C. Thompson.
8 Osbaldeston Gardens,
Newcastle-upon-Tyne

FINANCIAL TIMES

Monday December 29 1986

Roderick Oram on Wall Street

An above average performance

ANY PUNDIT predicting the Wilshire will hit 2,600 by year-end runs the danger of losing his audience for using an obscure measure. Suggesting, however, that the Dow will top 2,000, as many did when it set a record last month, would mean something even to millions of people who own no shares.

By virtue of its seniority, familiarity and relative accuracy, the Dow Jones industrial average is the main measure of stock markets for countless investors despite its shortcomings. The worst are its narrow focus on manufacturing industry, a distinct rust bowl streak from businesses past their prime and a rather suspect statistical form.

Thus the Dow industrial, comprising 30 shares of the New York Stock Exchange, has risen 25 per cent this year while the exchange's 1,540 stock composite index has gained 17 per cent.

The divergence is even greater from other markets. The American Stock Exchange all-share index is up only 7.5 per cent this year and the Over-the-Counter composite index has risen 8 per cent. The Wilshire index of 5,000 shares in all three markets has advanced 15 per cent.

The Dow industrial's critics can be scathing. "The Dow is a polyglot of oil companies, neanderthals and fallen angels. It's very deceptive," says Mr Raymond DeVoe, market strategist for Legg, Mason, a leading regional brokerage firm.

Although the 30 stocks account for about a quarter of the market's capitalisation of the NYSE and a fifth of all US stock markets, the average is faulted on several scores.

It is growing increasingly unrepresentative. Infrequent changes have left it skewed to old, heavy and cyclical industries. A number of the constituents are no longer widely held by professional investors.

Only six companies have joined the list since 1959 to replace those de-listed or no longer suitable: McDonald's, Philip Morris, American Express, Merck, 3M and IBM which was not re-included until 1979. It had been dropped in 1939.

Unweighted by market capitalisation, the largest stock, IBM at $74bn, has the same impact on the average as the smallest, Bethlehem Steel at $320m.

Originally, the average was calculated by adding up the 30 share prices and dividing by 30. But to maintain continuity, the divisor has been frequently adjusted to compensate for stock splits and other changes.

Currently, the divisor has dwindled to 0.889 thus magnifying price movements. If all 30 stocks rise $1 on a day, the Dow rises 33.7 points. When Owens-Illinois announced a management buy-out recently, the $3bn glassmaker alone pushed up the Dow about seven points. In periods of busy takeover or restructuring activities, a handful of stocks can account for, say, a 150-point rise.

The deficiencies make it an unreliable analytical tool. "The market peaked in April but the Dow set a record in November," says Mr DeVoe. On the downside, "most of the damage is done by the time the Dow gives the sell signal." The Standard and Poor's index of 500 stocks or the NYSE composite are better guides but accuracy comes with using a wide range of indices, each capturing the trend in particular industries or markets.

A prime virtue beyond its high public recognition is its historical value. Today's figure can be compared directly with those dating back to October 1 1928 when it took on its present form. Its precursors evolved from an 11-stock index heavy on railways compiled by Mr Charles Dow in 1884. The industrial average and its sister transportation utilities and stock composite indices remain the property of Dow Jones, publisher of the Wall Street Journal.

The industrial average "has its faults but it's well known; we're comfortable with it," says Mr Charles Stabler, an assistant managing editor of the Journal.

As the official "keeper of the Dow indices" he is charged with making periodic changes in consultation with his Journal colleagues. They seek no outside advice. Changes are small and infrequent to maintain the continuity of the industrial average, he adds.

Many Dow watchers argue, though, the Journal editors should accelerate and broaden their very gradual evolution of the index to make it more representative of American manufacturing and service industries and investment patterns.

Meanwhile, Dow Jones points out in its pocket guide to its indices the tendency of averages to obscure diversity. "Statisticians caution against trying to walk across a lake with an *average* depth of 3ft."

ORDER BOOKS TOP $35BN AS FLEETS NEED REPLACING

Record year for jet airliner sales

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT, IN LONDON

THE WORLD'S jet airliner manufacturers had a record year during 1986, with firm orders for new jets of all types worth over $35.5bn. This compares with orders for 688 new jets in 1985, worth over $23bn.

A major new development towards the end of the year was the emergence of the McDonnell Douglas MD-11 trijet replacement for the ageing DC-10 long-range airliner, which quickly picked up orders for 32 aircraft worth some $3.6bn.

As a result, McDonnell Douglas is expected to commit the MD-11 to full-scale development and production.

The company's board is due to meet in St. Louis today.

The MD-11 decision is likely to spur Airbus Industrie to launch its rival A-340 long-range jet airliner, a project currently under consideration by the governments of the Airbus partner countries – the UK, France, West Germany and Spain – and a decision is likely some time before the spring.

The 1986 orders total beats the previous record in 1979, when 751 new jetliners were ordered. Thereafter, the annual inflow of orders declined rapidly as recession began to bite into the world air transport industry, reaching a low point in 1983 when only 232 new jets were ordered, worth at then-current values, about $7.34bn.

The 1986 orders have also been accompanied by a substantial number of options which have still to be converted into firm contracts. If these materialise, as the makers are confident they will, the overall addition to the world's jet fleet for 1986 could eventually account for over 1,000 new aircraft.

The most significant reason for the rise in orders is that many airlines are now replacing ageing fleets which have been in service for nearly 20 years, especially in the short-to-medium and very long range categories.

This accounts for the large number of orders for the Boeing 737 twin-engined jet airliner, now the world's best-selling jet, and for the McDonnell Douglas MD-80 series, both in the short-to-medium range category, and for the Boeing 747 jumbo jet in the long-range category.

The 737 has now amassed total firm orders for 1,746 aircraft, which brings it close to the record 1,831 firm sales of the three-engined Boeing 727, now out of production.

Boeing is confident that the 737 will overtake the 727 in the next year or so, and believes that eventually well over 2,000 737s of all types will be sold, making it the world's most popular jet airliner.

But 1986 was also the year of the jumbo jet, and especially the new long-range 747-400. No fewer than 83 new jumbo jets of various versions were added to the order books in the past year, worth an estimated $10bn, and accounting for about half of Boeing's total sales by value.

The European Airbus Industrie consortium, with its new A-320 150-seater jet airliner, also had a good year. With new firm orders for 146 aircraft, total sales, including both firm orders and options, for the A-320 now amount to close to 400 aircraft, well before the aircraft has made its maiden flight, which is now due in the coming spring.

The second main reason for the rise in orders is the growing confidence in the industry that world air traffic will continue to grow over the next few years, at an average annual rate of around 5 to 7 per cent.

Figures for world air traffic in 1986 due to be published shortly, are expected to show that the 1985 total of 891m scheduled air travellers worldwide has risen over the past 12 months by about 6 per cent to about 950m, with further growth forecast for the next few years.

The world's jet airliner manufacturers all agree that the future for new jet orders is bright. Boeing, for example estimates that up to the year 2,000, the total Western world market for new jet airliners of all kinds will amount to some 5,300 aircraft.

Allowing for the retirement of some 2,900 ageing jets, there will be a net increase in the world jet fleet of some 2,400 aircraft, to an overall total of over 9,000 by the end of the century.

Boeing estimates that this market will be worth at least $246bn (in constant 1986 dollars), of which some $172bn, will be for aircraft to meet traffic growth, and $74bn, to meet fleet replacements.

The 1986 sales pattern was marked by several significant trends, which can be expected to continue during 1987.

One was the emergence of leasing as the dominant way of acquiring new jets. Although aircraft leasing is not new, it has swiftly gathered pace as financially hard hit airlines have discovered that they can still re-equip their fleets by leasing rather than borrowing for direct purchase.

European jet faces further delay, Page 2

COMMERCIAL JET AIRLINER ORDERS, 1986

		Orders (1985 in brackets)		Approx value (in $m)	Total firm orders (excluding options)*
Airbus Industrie	A-300	7	(21)	455	282
	A-310	17	(29)	1,020	129
	A-320	146	(39)	4,800	236
Boeing (US)	737	216	(282)	19,300	1,746
	747	83	(42)		765
	757	13	(45)		195
	767	23	(21)		211
British Aerospace	146	14	(30)	260	79
Fokker (Netherlands)	F-28	2	(21)	20	241
	F-100	50	(30)	1,000	88
McDonnell Douglas (US)	MD-80	191	(125)	4,775	516
	DC-10	5	(3)	300	442
	MD-11	32	(–)	3,600	32
Totals		799	(688)	35,530	4,962

*In each case, substantial options, letters of intent or conditional commitments exist, involving in all several hundred aircraft.

UK election 'likely to produce coalition'

BY TOM LYNCH IN LONDON

THE UK general election is likely to be held in the spring, and the outcome will be a coalition government, Dr David Owen, the leader of the Social Democratic Party, predicted yesterday.

"It looks as though an election is likely within three or four months," he said in a new year message. A sufficient number of SDP and Liberal MPs would be elected to force the Conservatives and Labour to negotiate on a programme. "We will see once again coalition government in this country."

In a radio interview yesterday, he discounted suggestions that the Tories' 8 percentage point lead in the latest opinion poll meant that the Government was electorally invincible. "The Conservative Government has an extraordinary record of incompetence and insensitivity. Its attitude to unemployment offends the vast majority of people in this country," he said.

His remarks came as the political parties prepared for two by-elections, and as the opposition parties put the finishing touches to the launch of their general election campaigns in the next few weeks.

The liberals are confident of holding the Truro constituency in Cornwall in the poll following the death last week of Mr David Penhaligon, one of the party's foremost strategists and campaigners. Mr Penhaligon had built his majority up from a few hundred to 10,480 in his 12 years in parliament.

Labour will be less sure of holding on to the inner London seat of Greenwich after the death on Christmas Eve of Mr Guy Barnett, who had a majority of only 1,211 over the Conservatives in the 1983 general election.

However, neither the Conservatives nor the Liberal-SDP Alliance – which was 4,578 votes behind Labour in 1983 – are likely to find it easy to overhaul Labour, which demonstrated its strength in London this year with successes in local government elections and victory in the by-election in marginal Fulham. The party leadership will be hoping that the local party members choose a candidate who cannot be portrayed as an extremist.

The Conservative campaign against alleged extremism in Labour-controlled local authorities has picked Greenwich as one of the offenders, but its defence that it is spending money on necessary public services may prove electorally popular, rather than a liability.

No date has yet been set for either by-elections – traditionally that decision is taken by the party which holds the seat. They are expected to take place no sooner than mid-February, when the updated electoral register comes into force, and no later than mid-March.

The polls will be the first test for the new opposition campaigns, the first of which will be launched on January 31 when the Alliance unveils its new campaign colour and theme tune at a rally in London.

This will be followed on February 6-8 by the Labour Party's local government conference in Leeds, where there will be major speeches by Mr Neil Kinnock, the party leader, Mr Roy Hattersley, his deputy, Dr John Cunningham who, as 'shadow' Environment Secretary, is the party's chief spokesman on local government, and Mr David Blunkett, the leader of Sheffield City Council and a leading figure on the party's national executive committee.

The conference speeches will effectively launch Labour's general election campaign, stressing its policies on public services, health and social services, privatisation and jobs – all areas where it feels the Government is vulnerable.

Japan to spend $9bn of surplus on aid deals

Continued from Page 1

It says grant money could be used by countries to buy technical assistance for the formulation of projects that would then qualify for World Bank loans. Japanese officials thus suggest that the grants would amount to an interest rate subsidy on the overall project.

The other main components in Japan's increased aid effort are new standby loans of SDR 3bn ($3.6bn) for the International Monetary Fund for a period of four years and a subscription of $2.6bn in new capital for the International Development Association (IDA).

The IMF needed additional finance because of the increasing call on its resources in the past year to help countries overcome their balance of payments problems.

The IDA, the World Bank's office for allocating grants to the poorest of the developing countries, set its so-called "eighth replenishment" of capital this year at $12.4bn compared with 9bn three years ago. Japan has agreed to increase its contribution by 53 per cent from $1.7bn to 2.6bn.

Last April, Japan also committed an additional $1.3bn to the Asian Development Bank's soft loan fund.

While all this is impressive, it is unlikely to silence Japan's aid critics. Foreign governments are particularly irritated by the large proportion of Japanese aid spending that is tied, that is, the recipient is obliged to use it to buy only Japanese goods and services.

This policy serves to increase Japan's already very high trade surplus and, at a time when the yen is very strong, it means that the recipient countries are probably paying uncompetitive prices for aid-financed goods.

This week, the Finance Ministry was at pains to point out that the new Japan special fund and the aid programmes with international institutions were completely untied.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	14	57	Dubrovnik	S	6	43	Malta	F	13	55	Rhodes	F	12	54
Algiers	C	13	55	Edinburgh	R	10	50	Manchester	C	9	48	Rio de J'o	C	27	81
Amsterdam	F	7	45	Faro	S	17	63	Manila	S	31	88	Rome	S	11	52
Athens	C	4	39	Florence	S	4	39	Melbourne	F	19	66	Salzburg	Sl	3	37
Bahrain	S	21	70	Frankfurt	C	4	39	Mexico City	C	24	75	San Francisco	R	12	54
Bangkok	S	32	90	Funchal	C	18	64	Miami	C	24	75	Seoul	S	-3	27
Barcelona	S	12	54	Geneva	—	—	—	Milan	S	9	48	Singapore	R	26	79
Beirut	—	—	—	Gibraltar	S	16	61	Montreal	C	-5	23	Stockholm	Sn	-6	21
Belfast	C	10	50	Glasgow	R	11	52	Moscow	Sn	-15	5	Strasbourg	C	5	41
Belgrade	S	4	39	Guernsey	S	10	50	Munich	C	2	36	Sydney	F	25	77
Berlin	R	2	36	Helsinki	S	-16	3	Nairobi	—	—	—	Taipei	R	18	64
Biarritz	C	10	50	H. Kong	S	19	66	Naples	S	9	48	Tangier	S	16	61
Bombay	S	27	81	Innsbruck	Sn	0	32	Nassau	C	26	79	Tel Aviv	F	15	59
Bordeaux	F	10	50	Inverness	R	9	48	New Delhi	S	17	63	Tenerife	F	20	68
Brussels	C	7	45	Islamabad	C	21	70	New York	S	7	45	Tokyo	R	3	37
Budapest	C	-4	25	Istanbul	C	2	36	Nice	S	12	54	Toronto	C	1	34
B. Aires	C	27	81	Jakarta	C	30	86	Nicosia	C	18	64	Tunis	F	14	57
Cairo	S	16	61	Jersey	C	11	52	Oporto	S	12	54	Valencia	S	14	57
Cape Town	F	25	77	Jo'burg	F	24	75	Oslo	Sn	-3	27	Venice	S	0	32
Caracas	C	29	84	Lima	S	28	82	Paris	C	7	45	Vienna	Sl	2	36
Casablanca	S	15	59	Lisbon	Fg	7	45	Peking	Sn	-8	18	Warsaw	Sn	0	32
Chicago	C	3	37	London	C	10	50	Prague	F	3	37	Washington	C	1	34
Cologne	C	6	43	Los Angeles	S	20	68	Reykjavik	F	-2	28	Zurich	—	—	—
Copenhagen	Sn	0	32	Luxembourg	R	3	37								
Corfu	S	11	52	Madrid	S	6	43								
Dallas	—	—	—	Majorca	S	15	59								
Dublin	C	11	52	Malaga	S	16	61								

Readings at mid-day yesterday:
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Dispute erupts over Guinness share sale

BY HUGO DIXON IN LONDON

A DISPUTE between two merchant banks over which of them owns 2.15m Guinness shares has added a further twist to the UK Department of Trade and Industry's (DTI) investigation into the UK brewing company, which was launched earlier this month.

Lord Spens, the managing director of Henry Ansbacher's corporate finance operations, said yesterday that Ansbacher had sold the shares on behalf of clients to Morgan Grenfell, another merchant bank, in April. However, Morgan Grenfell, which acted for Guinness in its £2.5bn ($3.6bn) bid for Distillers earlier this year, has since denied that it owned the shares, said Lord Spens.

Morgan Grenfell refused to comment in detail on Lord Spen's version of the events, saying the matter was under investigation by the DTI. However, a spokesman said it would be disputing fiercely some of the points made by Lord Spens.

The sequence of events, according to Lord Spens, was that at the end of March, when the Distillers bid was reaching its climax, Morgan Grenfell asked Ansbacher to buy shares in Guinness, presumably as part of a ploy to boost its share price.

Lord Spens himself was keen on the idea, but Mr Richard Fenhalls, chairman of Ansbacher, was not in favour. So Lord Spens suggested to some of Ansbacher's clients, whose names have not been revealed, that they buy Guinness shares. He did not inform Mr Fenhalls.

When the Distillers bid was clinched just after the mid-day on April 18, these clients decided to sell their shareholdings. Morgan Grenfell then approached Ansbacher, said Lord Spens, and offered to pay for the shares. This was apparently because it wanted to dispose of other shares in Guinness and did not want to see the price fall, he said.

Morgan Grenfell paid £7.6m, or 355p per share, to Down Nominees, a subsidiary of Ansbacher which buys and sells shares on the behalf of other people. This was above the market price for April 18, when Guinness shares opened at 335p and closed at 315p.

The dispute about who owned the shares began when dividend payments worth £48,000 arrived at Down Nominees in August, according to Lord Spens. Down Nominees sent the money to Morgan Grenfell, but two weeks ago Morgan Grenfell sent it back saying there had been a mistake and it did not own the shares.

Mr Fenhalls then decided to report the incident to the DTI, which had just begun its inquiry into Guinness, and both he and Lord Spens gave evidence under oath. The dividend payment has since been sent back to Morgan Grenfell.

British Gas faces imports fight

Continued from Page 1

One official said this would only be allowed "over his dead body," but others are less sure whether it could be prevented under present regulations.

Meanwhile the larger oil companies have started a lobbying campaign to prevent or restrict future imports. They say there is plenty of British sector gas available to be developed until well into the next century. They are particularly anxious to develop as much gas as possible now that oil field developments are looking less profitable.

For British Gas, 1987 is likely to be the year of decision about future imports.

THE LEX COLUMN

Fasten your seatbelts

Flaps, hydraulics, engines... institutional slide-show. Ready, and cleared for takeoff. There is none the less plenty of room for doubt as to what stock market rating British Airways merits, what it can actually be sold for in early February (which is a different thing), and who is supposed to buy the shares. The process of settling these questions, as of finalising the longest-delayed prospectus in the history of privatisation, has doubtless blighted many a Christmas at Heathrow and in the City of London.

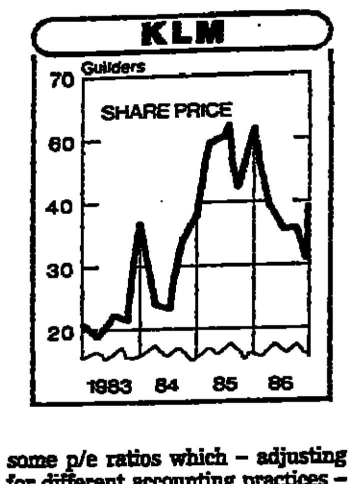
If it had not been for all those tiresome wrangles (and class actions) over the bankruptcy of Laker Airways, and prolonged doubt over the renegotiation of the Bermuda agreement which governs BA's transatlantic business, it is probable that the airline would have been floated long-since and conceivably at a larger capitalisation than the Government can hope to achieve in 1987.

Pricing

It is the levelling out of BA's flight path (productivity improvements are admitted to be slowing down) which presents the greater obstacle to a premium price. The Libya dip was, after all, partly offset by an unrepeatable drop in fuel prices. Had BA been a quoted company since the start of 1985, it would probably have had the same sort of share price performance as, say, KLM: a strong run in the shares as traffic volumes rose, and dividends were paid for the first time in years, followed by a sharp fall as the tourist trade evaporated.

If BA is competitive with such as KLM and Lufthansa in the airline market place, it must expect to share their volatile stock-market fortunes. Although part of the pricing will be determined by such peculiar British factors as having to pitch the yield attractively against that offered on British Gas – something like 6½ per cent being the likely attitude – after the sale BA will be as much a substitute for other international airlines as for other offerings from the British Government.

BA has thus to be offered, on an earnings basis, at a discount from



some p/e ratios which – adjusting for different accounting practices – are well down into single figures. Indeed one sales proposition is that when the over-depreciation of aircraft and profits from the sale of aircraft are taken of the profit and loss, the other European airlines are cheaper than they need be. Even Lufthansa, on an historic reported multiple of almost 30, is currently worth no more than some 6½ times adjusted 1986 earnings. KLM, the least costly European carrier, is selling on a multiple of seven.

Terrorism

Had the flotation gone through when there were still a couple of years of recovery and restructuring profits to come – as planned in 1984 or 1985 – there would have been a much more exciting package to sell. Recovery is not the best quality of growth, but a steeply rising trend of earnings is still the best pitch known to equity salesmen. As things have panned out, BA is being sold during a year when earnings would perhaps have levelled out if left to themselves, but when Libya and Chernobyl crucially messed up the summer tourist season across the Atlantic route, where BA makes about two-fifth of its profits.

This makes the sale a much more challenging affair, since not even the imaginative struggles to drag Americans back on to the Jumbos could hope to repair the damage done to BA's profits for the middle two quarters of 1986. What the putative shareholders therefore have to accept is that BA's earning capacity is represented by the £200m profit that it made in 1985, rather than the £150m that seems likely this year, after pre-tax profits of only £141m in the first half.

Competitive

If it were already in the market, there is no reason why BA should be valued any differently. Since it runs out of protective tax losses this year, BA's earnings capacity must be of the order of £150m, so it might be cruising along on a capitalisation of around the £1bn mark. To pull in the institutions, still the natural owners of such an inherently choppy earnings stream, a multiple of six is probably about as high as anyone dare fly; call it £900m and knock a bit off for safety, as airlines and government vendors are supposed to do.

It is consequently difficult to build anything into the selling price, but BA does seem to have some long-term competitive advantages, which should work increasingly in its favour through the next few years.

At Heathrow it has the largest international hub in the world – by some margin – and holds the largest market share of Heathrow traffic. It also makes efficient use of this endowment. BA is good at dividing up the cabin among different markets; BA is said to be a world more ingenious at filling long-haul flights than a Swissair, which maintains a rigid three-class structure, with no discounting.

Through the old inheritance of an Imperial route-structure, BA is second in size of network only to Air France. Yet the density of passengers on the BA network is over twice as high as that of Air France. As route density is the key to bargaining leverage with the airports, BA stands well to win the coming battle for quality of service on the ground, and thus improve its score in the convenience rankings.

Virtuous spirals can thus be seen, stacking above Heathrow. But when all's said and done, the issue will fly or flop with the other privatisation stocks. British Gas, and Mrs Thatcher's standing in the polls, had better hold up well in the new year.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday December 29 1986

INTERNATIONAL CREDITS

New instruments come of age

IF THERE were any doubts about the growth potential of the Euro-commercial paper (ECP) market, they were dispelled in 1986, writes Alexander Nicoll in London.

As the accompanying chart shows, newly signed programmes more than quadrupled during the year to $57.8bn, according to figures from Euromoney Capital Markets. This was exactly double the amount of note facilities signed in 1986, which fell to $28.8bn after nearly trebling to $40bn in 1985.

The figures underline the maturity of the market for short-term securities, which has mushroomed in the past three years.

Instead of cautiously arranging note facilities with structures providing assurance that paper could always be issued, borrowers have felt increasingly confident that they could go directly to the investor without the insurance of a tender panel or back-up credit.

Sweden, for example, moved away from reliance on the tender panel structure by allowing panel members to submit unsolicited bids directly to the borrower.

Other important staging posts have been reached. General Motors Acceptance Corporation, which issues some 10 per cent of outstandings in the $300bn US commercial paper market, opened an ECP programme which had grown to $1bn of outstandings within two months, helping to provide a core of corporate paper as well as giving a seal of approval that has attracted other US corporate names.

Nobody knows the exact amount of ECP actually outstanding, though guesses put it between $25bn and $30bn. Bankers believe there is still scope for dramatic expansion. Rapid growth, however, has thrown up several key issues, the determination of which will shape future development.

The argument within the market is over placement and the related question of what "liquidity" means. Many of the market's heavyweights put emphasis on placement of paper with end-investors and do indeed appear to have located a growing core of ECP buyers which did not exist a year ago. Although hard information is scarce, buyers include central banks, investment managers and corporate treasurers.

Many bankers argue that the market will not survive a period of rising interest rates unless this base of non-bank investors is further developed. This is in contrast with the early days of the market, when banks were the main buyers and made easy money by taking advantage of falling rates.

The conclusion of this argument is that ECP is a placement rather than a professional trading market and that houses do not make two-way prices to other professionals. Liquidity thus means making prices to investor clients who may want to buy more paper or to get out of their position. In the latter case, houses would buy the paper and re-place it with other investors.

Borrowers also appear to view placement with end-investors as extremely important. The rapid growth in the number of ECP programmes had posed new tests for dealers who, having won dealerships from customers, then have to service them.

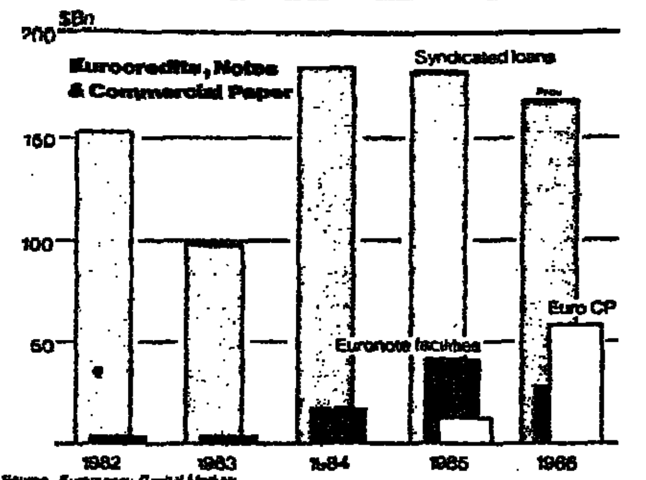
Dealers' performances are being scrutinised increasingly closely. Some borrowers have already shaken up their programmes, dropping dealers and adding new ones, and more are expected to do so next year.

The spread of the ECP investor base to corporate treasurers has added urgency to another debate: should borrowers open their books to debt rating agencies?

There is considerable reluctance among European borrowers to submit to what they see as US-oriented credit assessment.

The argument for ratings is not only that companies might cut their borrowing costs. It is also that corporate treasurers, as potential buyers, typically need to get permission at board level to invest. It is far simpler to get the nod to invest, for example, in all A1/P1 paper than in a long list of individual, unfamiliar foreign companies.

A related issue for borrowers is the yardstick by which they should set borrowing rates. London interbank rates are becoming far less convincing as a benchmark and 1987 could see the fruition of efforts to create a Euro-commercial paper index. US Treasury bill rates have already become the benchmark for much sovereign ECP.



Source: Euromoney Capital Markets

While the ECP market has been growing apace, it is spawning a new market in Euro-medium-term notes – continuously offered like commercial paper but for longer maturities – which is expected to see significant growth in 1987.

Meanwhile, new domestic commercial paper markets have been developing in Britain, the Netherlands, France and Hong Kong. The launch of the UK market saw an extraordinary outburst of public relations pressure on potential issuers. Progress has been steady but slow, with outstandings estimated to be about £600m ($870m).

One of the reasons for the growth of commercial paper has been the poor state of the floating-rate note market. Syndicated lending, which had been to some extent supplanted by floating-rate notes, also became competitive with them once again this year.

The Euromoney figures show that syndicated loans – including loan renegotiations but excluding sovereign debt reschedulings and associated new money loans – fell from $181bn last year to about $166bn in 1986, with a number of transactions dropping below 1,100 from a peak of 1,856 two years ago. There has, however, been some important business, much of which has been quite lucrative for banks.

A number of lesser-rated credits, giving decent yields to banks, have turned to them for loans. Turkey has been an important borrower this year for the first time since it hit the doldrums before the LDC debt crisis.

At least two borrowers, Algeria and Greece, have accepted a move to higher interest rate margins forced by worsening economic performance. Eastern European borrowers, which came back in force in 1985, have also been important in 1986 but have shown an increasing desire to pare margins, provoking some resistance from banks.

Against this relatively profitable business, however, must be set the intense competition to win mandates, generally from European borrowers, which has seen fees and margins setting new lows.

The deal which aroused furious outbursts was a $315m facility for Renfe, the Spanish railways group, in which terms included a facility fee of just 2½ basis points. One banker who declined to go into it remarked: "You struggle to do deals like these and then you lose money on them. That's not something we are prepared to do any more."

INTERNATIONAL BONDS

A profitable year for borrowers

THIS HAS been a great year for borrowers in the Eurobond market. Issues total just over $180bn, a one-third increase on the $134bn posted in 1985, writes Clare Pearson in London.

Against a background of tumbling world interest rates, borrowers have been rushing into the market both to create new debt and to refinance outstanding borrowings.

Yet the year has been less profitable for the market itself, much of which is still weighed down by unsold inventory. Underwriters have often lost sight of the need to distribute bonds, as well as to position them in the hope of further interest rate falls.

At the same time, investors have become increasingly cautious about buying Eurobonds amid concern over the direction of interest rates and the falling dollar.

Moreover, the Belgian dentist – the archetypal private investor who used to dominate the Eurobond scene and was content to hold a bond to maturity – has been to some extent eclipsed by the institutions, which seek to trade the market for short-term gains even though they find its liquidity wanting.

None the less, bankers are expecting a further flurry of issuing activity in the new year, with borrowers encouraged to come to the market on the premise that the long-term downward direction of interst rates may be reversed over the next 12 months. Underwriters will not want to miss out on what may be the last leg of the bull run.

This means that competition between underwriters may continue as fiercely as ever. Yet some of the players, after suffering hefty losses this year, may be taking a more sceptical view of the drive to ascend the book-runners' league tables.

If so, it means the Japanese houses may sweep the board. They have been aggressively using the vast pool of domestic savings in Japan to buy market share this year.

Some of the Japanese houses have been making inroads into traditional dollar bond business and launching straight fixed-rate dollar bonds. But the backbone of their effort has been the issue of equity-related deals for Japanese companies and deals specially designed for Japanese investors.

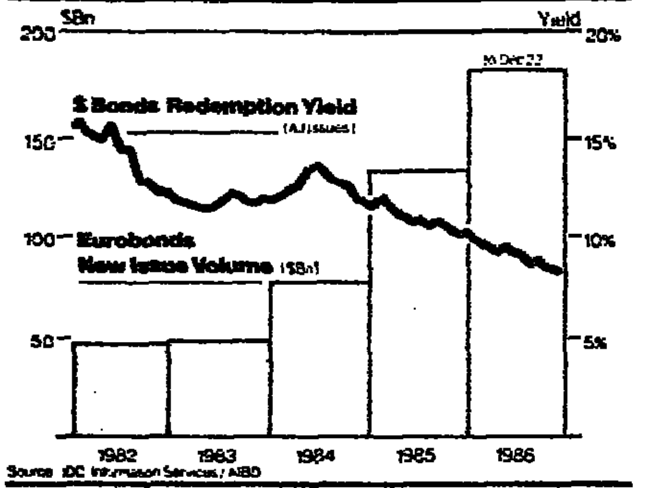
Besides a number of variations on the theme of the dual currency bond, Japanese investors have been regaled with a repertoire of bonds designed to suit their specific tax and cash-flow requirements, such as those with deferred and "step-up" coupons.

Elsewhere, bankers have devoted a great deal of innovative effort to the development of asset-backed issues, a practice imported from the US.

The most commonly used assets are mortgages guaranteed by one of the US government agencies. These have been used as collateral by US savings and loans institutions for their floating rate note (FRN) issues.

In a further twist, a crop of Eurobonds directly linked to mortgage-backed instruments, known as collateralised mortgage obligations (CMOS), appeared towards the end of the year. Here the bond is serviced by cash flows from the collateral. Although the mortgages themselves are of varying maturities, they are rearranged within the CMO to give the bond a national average life.

So far investors have taken to them because they provide a generous yield over London interbank offered rate (Libor), combined with a Triple-A credit rating. Yet, since the underlying mortgages are all fixed-rate, the bonds carry interest rate caps. Investors may start to focus on this drawback next year, especially if interest rates turn upwards.



Source: IDC Information Services/AIBD

One attraction of securitised mortgage issues is that they provide an attractive margin over Libor. This has been brought into focus during 1986 as margins on traditional FRN have been plumbing new depths, with prime quality offerings appearing with coupons at below London interbank bid rate.

Downward pressure on margins in the FRN market has proved irresistible as borrowers have been able to issue more cheaply by launching a fixed rate bond and swapping it into a floating rate issue, or else by raising funds in the form of Euro-commercial paper.

So some sovereign issues, including the record $4bn deal for the UK launched in September, have appeared with coupons fixed at below Libid. The theory is that money market investors will buy them as an alternative to US Treasury bills.

However, the traditional investors in the FRN market, the banks which fund in the London interbank market, have found many of the aggressively priced FRNs unattractive. A selling wave in Libid-based paper this autumn triggered a wider decline in the market.

In a generally jittery atmosphere, the market began to question the value of one particular sector: the perpetual FRN market in which banks raise bonds with no final maturity to enhance their primary capital.

Perpetuals pose problems because there is no guarantee they will be repaid and they are usually issued as subordinated debt and might thus have to be converted into preferred stock if an issuing bank became bankrupt.

Margins on new FRN issues will certainly have to be adusted upwards, making the commercial paper market look even more competitive.

The "asset swap" business has been one of the fastest growing areas of the Eurobond market this year. Typically, it works like this: the investor buys a fixed-rate bond, collects the coupon and arranges a swap transaction, under which he will sell fixed coupons in exchange for buying floating coupons. This can create a higher-yielding instrument than a genuine FRN.

The currency sectors of the Eurobond market have continued to erode the market share of the dollar sector this year. The main impulse behind currency diversification has been the erratic foreign exchange movement of the dollar and the continued liberalisation of markets and supervisory regimes.

Will the Eurobond market see another record issuing amount in 1987? From the borrowers' point of view, balance of payments arguments for issuing debt have been undermined by lower interest rates and lower oil prices.

The ingenuity of the Eurobond market, particularly in devising swap-related borrowing opportunities, has however given Eurobond issuing a dynamism of its own. More borrowers are now issuing for refinancing purposes rather than out of any need for new money.

On the over hand, equities are riskier but much more profitable than Eurobonds, and so many houses have been concentrating more on this area.

Anatole Kaletsky explains why US bond dealers dislike the relative calm that has enriched their clients

Handsome rewards for investors in long-term Treasuries

IT HAS been another bumper year for the long-term investor in US treasury bonds, but not necessarily for short-term traders, who have made the US credit market what it is today: the most technically sophisticated, closely followed and lucrative investment business in the world.

For the proverbial widows and orphans—most likely these days to be found in Yokohama or Hokkaido—who want to put their money into a high-yielding, risk-free asset and then forget about it, the US Treasury market has been a happy place, taking this year's performance as a whole.

Holders of long-term Treasury bonds, who had enjoyed capital gains of over 20 per cent a year in 1984 and 1985, found fortune even more generous in the early part of this year—thanks partly to the euphoria engendered by the near collapse of the Organisation of Petroleum Exporting Countries. The plunge of bond yields from 9.3 per cent at the start of 1986 to the low point of 7.12 per cent, which was reached in April, produced a suitably triumphant coda to one of the greatest bull markets in the history of investment—with a gain of nearly 25 per cent in the price of the Treasury's 30-year bond in just three months.

Since April 18, when the cut in the Federal Reserve Board's discount rate from 7 to 6½ per cent coincided with an eight-year high point, the bond market has wandered aimlessly within a narrow trading range. With long-term interest rates fluctuating between the 7.9 per cent and 7.2 per cent marks, the market has never managed to get up the courage for a convincing run either at the bears' target of an 8 per cent bond yield or at the bulls' hope of a yield below 7 per cent. Thus life for the passive bond investor has been relatively uneventful since the great rally fizzled out in April.

For the professional market maker, however, it has been a very different story. Salomon Brothers has calculated that 1986 has been the year of highest volatility in the bond markets since the financial crunch of 1979-82, when the Fed undertook its hair-raising experiment with consciously destabilising monetarist operating procedures. For traders caught on the wrong end of these whiplash movements—and that has included several of the biggest bond houses—1986 has been a nerve-wracking and expensive year.

In just one day shortly before the April 18 discount rate cut, the Treasury long bond leapt by 3½ points, marking the largest daily advance since the Fed abandoned monetarism in October, 1982. The very next week, as the dollar reacted to the discount rate cut by sinking to a new low against the yen, the market plummeted by almost six points in what Dr Henry Kaufman of Salomon Brothers described as "the largest one-week price retreat in history." A few weeks later, within a month of that momentous discount rate decision, the market had fallen 15 points from its peak and many a bond dealer was looking to his pension plan.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	—12-month— High	Low
Fed Funds (weekly average)	6.38	6.82	6.00	9.91	5.71
Three-month Treasury bills	5.56	5.50	5.38	7.26	5.01
Six-month Treasury bills	5.59	5.58	5.41	7.38	5.08
Three-month prime CDs	6.31	6.25	5.90	8.05	5.48
30-day Commercial Paper	7.00	6.90	5.88	8.05	5.55
90-day Commercial Paper	6.20	6.30	5.78	7.80	5.46

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	101	+¼	6.95	6.96	6.97
20-year Treasury	117⅞	+½	7.59	7.65	7.70
30-year Treasury	102	+¼	7.34	7.37	7.41
New 10-year "A" Financial	N/A	N/A	8.13	8.13	8.13
New "AA" Long utility	N/A	N/A	8.88	8.88	9.00
New "AA" Long industrial	N/A	N/A	8.88	8.88	8.88

Source: Salomon Bros (estimates).

By the beginning of June, the market's sentiment had turned on a penny once again—a run of weaker-than-expected economic statistics was good enough to send the long point more than 6 points higher before it plunged again on the basis of a couple of characteristically-ambiguous comments to Congress from Mr Paul Volcker, the chairman of the Fed.

No sooner had they overcome their shock at Mr Volcker's scarcely original remarks about the need for foreign help in digging the US economy out of its deficit hole than the bond dealers were struck by another thunderbolt: the Japanese, to everyone's surprise, came out in force as bidders in the Treasury's August refunding, despite the heavy losses they had suffered on their large purchases in the previous refunding in May. Several US investment houses were caught napping on the short side as the Japanese snapped up the Treasury's $30bn worth of bonds. Just as the dealers had recovered their composure it was time for another plunge into the abyss as sudden and unaccountable fears of inflation knocked bond prices down 10 full points during the month of September.

This kind of manic depressive fluctuation has certainly not enhanced respect for the bond market's collective wisdom. However, the market's behaviour does perhaps say something significant about the economic world, if only indirectly.

The bond market, like so many other financial businesses today, thrives on uncertainty is an anathema to bond traders. It is hardly surprising that they will try to discern new trends from meaningless fluctuations in economic statistics, set up computer programmes to exaggerate random blips in market prices, attach deep significance to harmless platitudes from policymakers and make or lose large sums of money in the process.

The longer term outlook is admittedly clouded by all kinds of familiar problems. The US budget and trade deficits continue to yawn as far ahead as anyone can see — and the probability remains that they will eventually be closed by a combination of further devaluation and inflation.

Government policy makers, especially in the US, have learnt the costs of leaving the management of their economies entirely to market forces and have reverted to a degree of macroeconomic fine-tuning not and instability. The possibility that interest rates might move sideways within a narrow range for many months or even years seen since the 1960s. This kind of conscious economic management may well account for the stability of long-term interest rates since April. Once they had reached the 7 per cent area, it could be said for the first time in years that long interest rates had attained something like a reasonable equilibrium level. Much higher rates would soon become an obstacle to economic activity, yet yields much lower than 7 per cent would probably require too much of a leap of faith from bond investors, given a long-term US inflation rate of 3 or 4 per cent.

If this analysis is right, bond traders may see in it an unattractive prospect — continuation of the sideways movement of the last eight months. But for the rest of the world it would be a welcome relief to worry rather less about the latest wave of panic selling or euphoric buying of the Treasury long bond.

Janet Bush sums up market sentiment in a year which has seen low inflation, Big Bang and a public spending give-away

Gilts learn to live in the shadow of political and economic uncertainty

Yields on UK government bonds have ended 1986 — which saw the lowest inflation rate for 20 years, Big Bang and a Conservative public spending give-away — little changed from the levels seen at the start of the year.

Old habits die hard. The early months of 1986 were dominated by gloom. The year started with a fully fledged sterling crisis, as world oil prices plunged and the authorities were forced to raise interest rates to 12½ per cent. Everybody believed the public sector borrowing requirement target would be overshot and the Chancellor would have no tax cuts to deliver.

In the event, sterling recovered, the PSBR was undershot and Mr Lawson pulled tax cuts out of his hat.

And what of the late months of 1986? The Organisation of Petroleum Exporting Countries was meeting again and sterling was a mess. But then Opec came to an agreement, oil prices firmed, sterling regained some of its popularity, the PSBR looks likely to undershoot again and everyone is betting that the Chancellor will cut taxes by at least 2 pence in the pound.

Given the Government's talent at muddling through so successfully, why are yields on long-dated gilts still stuck in the 10 to 11 per cent range? The answer is that some of the old problems remain and new ones have come to haunt.

Inflation is one of the old problems. Although the annual rate fell to 2.4 per cent in the middle months of the year, it is now rising again and most independent forecasters are looking for a 5 per cent rate by the end of next year.

The Confederation of British Industry reported earlier this month that pay deals in manufacturing industry were probably running at their lowest level for 10 years but lamented the fact that average earnings increases were still stuck at an underlying rate of 7.5 per cent.

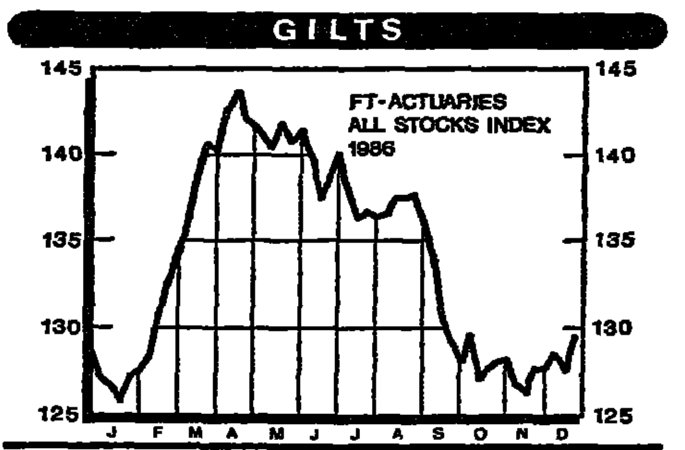
Inflation was helped, of course, in 1986 by the unprecedented fall in world oil prices and very weak commodity prices. Now, industry's fuel and raw materials prices have started rising again, reflecting some recovery in international commodities markets and the firmer oil prices.

And there is now perceived to be a new threat to inflation in the form of a surge in consumer spending, much of it going on imports which are beginning to show signs of getting more expensive.

Sterling remains vulnerable, if not to oil (should the Opec agreement crack), then to the deterioration in the balance of payments.

Economists in the gilt-edged market talk confidently of a huge amount of overseas money poised to flood into UK investments, if only foreigners were confident in the currency. There were few signs in the last weeks of 1986 that their fundamental doubts about sterling's reliability had changed.

Clouding the view even further is politics. The forthcoming General Election has added yet another layer of uncertainty and it seems likely that investors will demand a substantial risk premium until the outlook becomes clearer.



And what of monetary policy? Inevitably, the year saw the deeper demise of sterling M3—downgraded in the 1985 Mansion House speech, brushed aside in the 1986 Mansion House speech and explained away at Loughborough.

Perhaps 1987 will see M0 take on the mantle of its disgraced broad money cousin by overshooting its target range as well. And the market's attention (and government policy-making) will rest even more firmly on short-term interest rates and sterling, and the parlour game will be guessing when Mrs Thatcher will take the pound into the European Monetary System.

The Government's fiscal manoeuvrings gave City commentators even more to chew on in 1986. The Chancellor marched away from the autumn statement wearing at least some of the garments of his high-spending political opponents, but promising that his style had not changed — there would be no extra borrowing to finance his public spending plans.

There is little doubt that this year's PSBR looks in good shape, despite the overrun on spending, because of buoyant VAT and corporation tax receipts and handsome proceeds from privatisation. But next year, many independent forecasters are expecting a substantial overshoot on borrowing, which could act as a dampener on sentiment in the gilt-edged market.

Mr Stephen Lewis, director of economic research at Phillips & Drew, concludes from all this that the gilt market will end 1987 not far from the levels at which the year began, the same pattern which has unfolded for the previous four years.

If the behaviour of gilt yields has had a stubborn consistency about it, there were at least some remarkable changes in 1986 in the way these instruments are traded.

The simple world where two mighty jobbers dominated the market ended on October 27.

Akroyd and Smithers and Wedd Durlacher used to be names to conjure with but then came along such animals as S. G. Warbury, Akroyd, Rowe and Pitman, and Mullens (Gilt-edged) Limited (now thankfully shortened in day-to-day business to Warburg Securities).

After the loss of commissions for the 27 market makers in gilts under the new arrangements there has been the expected explosion in inter-professional trading and a sharp narrowing in spreads. This trend was accentuated by the stand-offishness of retail investors, who showed precious little interest in gilts in the weeks following the Big Bang.

Apart from retail interest, there has been more of everything in the new market. The number of bargains in gilt futures contracts hit successive records as market makers hedged their positions and there is no doubt that volume will surge to even greater heights in 1987.

There are more prices available than ever before, with 27 market makers and six inter-dealer brokers flashing information up on a plethora of screens.

There is also more gossip. Have the Americans gone quiet? Is that bullish economist talking his book? Who traded on the Bank of England's Quarterly Bulletin before it came out? Was there anything new in it? Should we trade on fourth-quarter stockbuilding data? Who is making and losing money?

That, too, is a trend which will continue in 1987.

INTERNATIONAL CAPITAL MARKETS and COMPANIES

Ian Rodger reports on reorganisation at a Far East securities firm

Carr picks up after defections

"PEOPLE SEEM to think that W. I. Carr (Overseas) has disappeared because 80 people have left. In fact, there are still 560 people working for us," says Mr Patrice Mignon, the new chief executive at Carr.

Mr Mignon, interviewed in Tokyo, was understandably a bit exasperated at some of the obituary-type rumours that have been rife in Far East financial markets since the exodus just over a month ago of most of the top analysts from Wico, the group's international arm.

A first vice-president of Banque Indosuez, he was the driving force behind the French bank's daring and rapid decision to acquire Carr from Exco, the London-based moneybroking group, only two weeks after the defections.

The opportunity emerged suddenly when British & Commonwealth made its agreed £673m ($980m) bid for Exco on November 20, and sought the immediate sale of Carr. Indosuez, which has been trying to renew its historic strength in the Far East, had offered to buy Carr before, and was quick to jump at the chance again for one of the very few independent brokers left in Tokyo.

The final price will be set by formula, but it is likely to be close to Carr's total capitalisation of roughly £35m.

A few days later, even though the Indosuez purchase had not yet been completed, Mr Mignon was installed at the head of Carr and has already begun the job of reconstruction.

His most pressing task, however, is to secure the Japanese securities licence of Wico. The Takyo office accounts for more than a third of Wico's business. In principle, once Indosuez buys Carr, that licence is under threat because Japanese law prohibits a company from participating in both the banking and securities businesses. Confirmation of the licence is a condition of the Indosuez purchase.

Even before the deal was done, Indosuez had begun sounding out the Japanese Ministry of Finance (MoF) on acceptable solutions. So far two formulas have emerged in Japan to enable foreign banks to get around this legal problem. The first was introduced by Citicorp of the US. It acquired Vickers da Costa, the British securities firm which already had a Japanese licence, in 1984. The MoF has never removed Vickers' licence or obliged Citicorp to reduce its investment.

However, since last year, MoF policy has been to allow foreign banks to set up securities companies only if the bank's direct holding is no more than 50 per cent. Several European banks have since obtained licences for securities affiliates on this basis.

Mr Mignon says Indosuez sounded out the MoF on applying the Citicorp-Vickers formula, but the authorities apparently made it clear that the French banks would have to go the 50 per cent route. "We wanted to close the transaction quickly, so we decided to accept that," he says.

Indosuez was already well advanced in its planning to set up a securities affiliate in Tokyo on the 50 per cent basis, and had lined up "two major European insurance companies," as Mr Mignon puts it, to act as the friendly partners in such a company. That planning will now be applied to Wico's Tokyo operation. Mr Mignon expects verbal approval from the MoF very soon, with confirmation coming early next year.

Meanwhile, he has been trying to rebuild Wico's business in the wake of the defections. He does not deny that the impact of the departure of many of the group's leading dealers and analysts to Swiss Bank Corporation International (SBCI) and Barclays de Zoete Wedd (BZW) was "very significant." Wico's name had been based largely on its strong research team, he concedes.

Volume in the Tokyo office was still very depressed, and it was proving difficult to recruit people. However, in Hong Kong, the research team had already been rebuilt and volume was up to 80 per cent of pre-defection expectations. The Tokyo problem was being solved in part by the injection of a team that was being formed at Indosuez.

Mr Mignon says that Indosuez wanted to change Wico's strategy in Tokyo in any event. The equity research effort, while highly regarded, had been heavily oriented to fundamental research. Yet investors have become more sophisticated about the Japanese market and need a more market-oriented approach.

Wico had also concentrated on selling Japanese shares to foreigners. Indosuez wants it to sell bonds, too, and to get in on the boom in Japanese portfolio investment abroad. Indosuez has a growing network of securities operations in Europe, including Carr's strong gilts operation in London, and Mr Mignon believes it can bring "a broad range of European products" to Japanese investors. A corporate finance operation is also being added in Tokyo.

His other preoccupation is bringing Wico under control. The firm has grown very quickly in the past few years, and he remarks that it has often not been clear who was responsible for what. However, there have also been a couple of pleasant surprises.

One was Wico's office in Seoul, which is successful and was untouched by defections. It also has a 4.5 per cent interest in Daishin, a leading South Korean securities firm. The second was that Wico was about to conclude the purchase of a stockbroking firm in Jersey, "the only tax haven in the world where Indosuez had not yet set up an operation."

While it is early days, Mr Mignon is defiant about the wisdom of the purchase. "I do not consider that the limited amount we are paying for goodwill is any higher than the real goodwill in the company. It is a well-known name, and we have been able to move quickly."

TOKYO LICENCE FOR SBC UNIT

SBCI Securities (Asia), an affiliate of Swiss Bank Corporation, has obtained permission to conduct securities business in Japan, writes John Wicks in Zurich.

To mark its debut in the Japanese market, the Swiss-owned company is to co-operate with Daiwa Securities in launching a first issue in the foreign currency-denominated bond market—the so-called shogun market—for Ciba-Geigy, the Swiss chemical company.

This will be a $500m issue with a maturity of seven years and the first issue of its kind by any European corporate borrower. It will also be the first joint lead management by a foreign-controlled investment bank in Japan

NRI TOKYO BOND INDEX

December 1983 = 100	25/12/86	Average yield (%)	Last week	12 wks ago	28 wks ago
Overall	131.90	4.94	131.53	128.62	125.62
Government Bonds	132.78	4.69	132.39	129.52	126.84
Municipal Bonds	132.21	5.38	131.85	128.64	125.27
Government-Guaranteed Bonds	132.94	5.44	132.52	129.02	126.80
Bank Debentures	128.26	4.68	127.93	125.36	122.65
Corporate Bonds	130.45	5.81	130.09	127.78	123.88
Yen-denominated Foreign Bonds	132.91	6.47	132.64	129.88	126.12
Government 10-year†	5.35		5.39	5.56	5.56

† Estimated par yield.

Source: Nomura Research Institute.

Banks to aid Bet Shemes

BY JUDITH MALTZ IN TEL AVIV

ISRAEL'S FOUR major banks have agreed to write off US$20m of the approximately $65m in debt owed to them by Bet Shemes Engines, the country's virtually bankrupt aero engine manufacturer.

Officials at Bank Hapoalim, one of the company's largest creditors said that the banks had taken this step to save Bet Shemes because they believed the company had potential and because the effects of its closure would be devastating, as it is a major employer in a development region.

Government officials said they were continuing to negotiate with the banks in order to persuade them to cancel about another $5m in debts.

A ministerial working group examing the company's future has appointed Mr Giora Gazit, formerly chairman of Bank Hapoalim, to head a committee to negotiate with potential buyers of the government's 60 per cent stake.

GTE moves to block Belzbergs

GTE, THE US telecommunications group which has been the object of repeated bid speculation, has rebuffed its latest suitor, First City Financial, the holding company of the Belzberg family of Vancouver, AP-DJ reports from Stamford, Connecticut.

Mr Theodore Brophy, GTE's chairman, rejected suggestions from First City that GTE should spin off to shareholders its 50 per cent holding in US Sprint, the loss-making long-distance telephone venture, in which GTE has invested heavily.

GTE has also adopted a series of measures to thwart corporate raiders and to prohibit payment of "greenmail."

CDF spin-off

THE CHEMICALS subsidiary of Charbonnages de France, the state-owned coal group, is to be split off. Charbonnages will cede its 95 per cent stake in CDF-Chimie to the French state, which already owns 5 per cent directly, George Graham writes from Paris.

The chemicals company has experienced significant difficulties recently, despite reducing its deficit in the first half of the year. Mr Serge Tchuruk, its new president, said that splitting CDF-Chimie off would enable it to carry out the necessary restructuring.

Indian share rally

HEAVY SHARE buying by Indian government-owned investment institutions has lifted prices on the country's stock exchanges, lifting the All-India Index to 467.8 by Wednesday, the last trading day of the year, R. C. Murthy reports from Bombay.

The government is anxious that the stock market, afflicted by bearish sentiment in the past two months, should be in good enough shape to raise some Rs50bn ($3.87bn) in new capital for industry in the current financial year.

Hitachi Zosen loan

Seven banks have agreed to provide up to Y160bn ($1bn) in loans to three property company affiliates of Hitachi Zosen, the troubled shipbuilding group, Kyodo reports from Osaka. Proceeds will be used to buy land belonging to the group's shipyards in order to help pay off debt and to finance voluntary retirement schemes.

Exxon sells its nuclear fuels concern to Siemens subsidiary

BY ANATOLE KALETSKY IN NEW YORK

EXXON, the world's largest oil company, is selling its nuclear fuels business, Exxon Nuclear Company, to Kraftwerk Union of West Germany.

Kraftwerk Union, which is a wholly owned subsidiary of Siemens, is one of the leading international suppliers of nuclear power plants and technology, although it has little presence in the US.

Exxon Nuclear's main business is the processing and resale of nuclear fuels, which it supplies to electrical utilities in the US, Europe and the Far East.

At present Exxon Nuclear processes 900 tonnes of uranium each year at its US plant at Richland in Washington State and a further 300 tonnes at Lingen in West Germany. It employs about 900 people in the US and Europe.

Neither side would disclose financial details of the transaction.

Talks between Exxon Nuclear and KWU started at the beginning of 1986. In September, KWU said it was eager to gain a foothold in the US market for fuel elements. "Over the last few years we have made a number of efforts to enter the US nuclear business," the company said.

The US market, with 101 operating nuclear power stations, offered large potential. There are 19 working nuclear power stations in West Germany.

KWU produces fossil-fired and nuclear power stations. The company also makes fuel elements for nuclear power stations and provides services for the nuclear industry.

Debentures make debut in Yugoslavia

By Aleksandr Lebl in Belgrade

NEGOTIABLE securities will be sold for the first time in Yugoslavia on January 5 when the electric power industry of the constituent republic of Serbia will issue debentures.

The offering will be worth 10bn dinars ($22m) and proceeds will be used to help to finance the construction of power plants.

The paper will mature in two years and bear an interest rate of 68 per cent, to be paid quarterly. The debentures will be sold in bearer form and will be negotiable.

In the rare cases where companies have issued debentures in the past, they could not be sold or transferred.

The securities offer a higher interest rate than savings accounts at the moment, but deposit rates are set to rise as the Government pursues its policy of gradually introducing positive real interest rates.

With an inflation rate of only slightly less than 100 per cent, the debentures still represent a relatively low rate of return.

Several Yugoslav economists have been advocating the introduction of securities with variable interest rates, depending on the success of the issuer, or shares for workers. So far, such ideas have met stiff opposition.

Morgan Grenfell moves to boost US operations

BY HUGO DIXON IN LONDON

MORGAN GRENFELL, the financial services group, has appointed a new managing director of its American subsidiary, Morgan Grenfell Inc, as the first step to beef up its US operations following the acquisition of C. J. Lawrence, the US securities firm, earlier this month.

The new managing director is Mr Geoff Hill, who is leaving his job as managing director of Morgan Grenfell Australia. He will be in charge of the firm's corporate finance activities. Mr Keith Harris will remain managing director of Morgan Grenfell Inc's banking and capital markets business.

As part of its plans to integrate C. J. Lawrence with its securities operations worldwide, Morgan Grenfell has a group of people ready to move from London to C. J. Lawrence's office in New York. A team is also about to leave C. J. Lawrence to come to London.

Mr Hill is being succeeded by Mr Nicholas Bull, presently a deputy managing director, who will take charge of corporate finance. Mr Gregor Michie will be the managing director with responsibility for banking and capital markets in Australia.

UK COMPANY NEWS

Terry Povey on the cross-Atlantic search for tax-efficient marriages

New life for loss-makers

THE SIGHT of profitable companies chasing lossmakers for tax reasons is common—even if it is never thoroughly respectable. A pair of investment managers have turned this practice on its head and found a rewarding way for impoverished UK predators to acquire profitable US businesses.

Running this scheme is Mr Mark Vaughan-Lee, a former director of MIM, the fund managers, but now working independently, and Mr Chris Mills, who is a consultant overseeing the institution's North American investment operations. MIM, which is owned by Britannia Arrow Holdings, is backing the two men by holding or taking a 10-to-20 per cent equity stake in the companies involved.

Mr Vaughan-Lee and Mr Mills have been searching out suitable partners for tax efficient marriages since late 1984. To date, they have completed one scheme, another is very close to being finished, and the next venture appears just to be getting under way.

The first of the duo's deals involved the restructuring of *USM-quoted American Oilfield* Services (now renamed American Electronic Components). Durakool, a US electronic switch manufacturer, was injected into the ailing AOS shell.

Later this month, American Business Systems is to be born through the merger of Danka Industries with New Court Natural Resources. ABS will also be one of only two companies ever to drop down to the USM from the main market.

The nub of the Vaughan-Lee/Mills arrangement is the bringing together, by mutual agreement, of a UK company with virtually all its operations in the US, which is close to collapsing under the weight of losses, and a profitable US company. Differences in tax laws and fund raising proceedures make it possible for the UK company's accumulated losses to shelter the profits and therefore to finance the growth of the American unit.

On this side of the Atlantic, the ideal company is USM-listed, for ease of manoeuvre, with a share price pushed down to penny stock status by consistent losses. The oil industry has provided a pool of suitable companies — many small independent producers or oil services companies with US operations were listed on the UK stock market in the heyday of expensive crude. Several of these have come to grief—some were running at a loss even before the oil price collapse hit them.

In the US, Mr Mills has found a number of solid, owner-managed small private businesses lacking a tax shelter for their profits. "There are over 700 suitable companies out there," he claims. Many owners are willing to exchange *control for large performance* bonuses: the two men running Danka could earn $15m within five years (and they retain an eighth of the expanded equity). Their company will enjoy rapid growth and obtain a listing.

After the UK target has been identified and the US partner has been won over, the intended are introduced. The next stage, provided control over the UK company has been firmly established, is for it to be radically restructured so as to produce as clean a shell as possible.

Costs are slashed to the bone, assets are disposed of, and what remains is sharply written down

Mr Mark Vaughan-Lee

(generating more tax losses in the process). In the case of New Court, a one-for-one rights issue at par was required to fund what Mr Mills called "the tidying up operation."

Next, the US company is acquired by the UK shell in an all shares deal. As the shares for the acquisition have to be issued at or close to par value, the rights involved are very heavy—American Oilfields had a nine-for-one, New Court a 15-for-4 (making an 11-for-one increase in equity in four months).

The need for a trans-Atlantic component in these deals arises, ironically, from American legislators' attempts to block US companies from buying tax losses. Presently, US tax losses can only be offset within the same corporate grouping and any change of onwership immediately cancels the potential tax credits.

UK tax laws are far more restrictive about the flexibility with which companies can utilise losses, even within the same group, but there is no change of ownership rule.

It is these differences in tax rules which makes a UK partner the desired "other half" in these arranged marriages. When a US company raises funds through a rights *issue, the American investment* banks buy the shares being issued and then sell them on. The large rights issues necessary to recapitalise any loss-laden shell would involve, even if only for a matter of minutes, a change of ownership.

In contrast, UK companies can make underwritten rights issues directly to existing shareholders — and tehrefore there is no disqualifying change of ownership. And MIM's good offices can be relied upon to get the institutions behind the tax-driven restructuring plan.

AOS, the prototype operation, had been traded under the matched bargains rule since 1980. Investors initially paid 100p for the shares, but they were suspended in January 1985 at 22p. Soon afterwards the chairman resigned, Mr Vaughan-Lee took his place and Durakool was absorbed. AOS, with $21m of tax losses still intact, was listed on the USM as American Electronic Components in March 1985 through an offer for sale at 20p underwritten by MIM.

Taxes actually paid by AEC in the year to June 1986 were a mere 3 per cent of the £2.94m pre-tax profits (which included about £1m of upfront development costs). A couple of acquisitions indicated that AEC's strong attributable profits and cash generation streams were being tapped to fund Durakool's expansion. MIM has a 22.4 per cent stake in AEC and the 5p shares are now valued at 27p.

Mr Mills points out, however, that although such schemes "are simple enough in outline, they are a great deal more complex in practice." The New Court-Danka deal was clearly very difficult to pull off. Mr Mills and Mr Vaughan-Lee had to battle against the majority of the board, beginning as ring-leaders of dissident institutional shareholders, which held about a third of the equity.

The balance of power did not tilt in the duo's favour until after Bond Corporation took over Hampton Gold Mining Areas (which held a key stake in New Court). Also holding up the scheme was a boardroom wrangle centring on a luxury flat in New York which ran up $1m in legal costs before it was, to New Court's disadvantage, finally settled out of court.

New Court's accumulated tax losses are worth about $15m plus another $1m a year as long as the oil price is depressed. If oil prices rise significantly, then the cash flow from the best properties retained is a bonus. ABS is planning to use the almost tax-free cash flow to expand Danka rapidly in the Florida photocopying market—its managemen believes it will be a $100m company within five years. MIM has, via Consolidated Venture Trust, a major stake in New Court.

What are the difficulties? First, how much should be paid in the dividends to keep investing institutions on board? Then there is the more remote threat that US legislators or the UK authorities may consider this a loophole worth closing.

Most importanly though, at the end of five years or so earnings growth tails off as the shelter is lifited. The various equity partners may want to sell up before this trend becomes too apparent but any change of ownership before the losses run out could threaten to unravel all the tax planning arrangements.

However, for the time being, the MIM-banked duo are convinced that they have discovered a valuable profits seam that is worth pursuing. Their *next target* could well be Sapphire Petroleum, Mr Mills has recently joined the company's board, MIM has a 15 per cent stake and the tax losses available are reputed to be a mouthwatering $28m.

With Sapphire's shares now at 19p (the par value is 50p) against the July, 1985, offer price of 150p, few of its shareholders are likely to turn down any scheme out of hand.

Midsummer purchase and share subdivision

Midsummer Leisure, formerly known as the Campaign for Real Ale and latterly as Midsummer Inns, has announced details of the proposed subdivision of its shares and the acquisition of the Derby Signs group for a maximum £1.25m.

In a circular to shareholders, Midsummer proposed a subdivision of its shares in the ratio of two-for-one and the introduction of an executive and savings-related share option scheme. The circular also gave details of Midsummer's application to the Stock Exchange for a full listing of its shares which are currently on the USM.

Midsummer's interests are in public houses, discotheques, snooker halls and restaurants and *shopfitting*.

An extraordinary general meeting to approve the subdivision and the share scheme has been called for January 20.

Midsummer will pay a maximum £1.25m for Derby Signs. On completion of the deal, £1.04m will be paid by the issue of £540,000-worth of new Midsummer shares and £500,000 casn. The balance to be paid is dependent on Derby's profits performance in the years ending September 30 in 1987 and 1988.

Derby Signs designs manufactures and installs corporation sign schemes, aluminium and glazing fitments and carries out general printing for the sign and promotions industries.

The purchase of Derby Signs would enable Midsummer's Charnwood Shopfitters subsidiary to expand its services in the brewing, leisure and retail sectors, Mr Adam Page, Midsummer's chairman said.

In the year to March 31, Derby made pre-tax profits of £32,000 on turnover of £1.24m.

Mr Page said he expected the vendors of Derby Signs to retain their shares.

Radius acquisition

Radius, the Hull-based computer systems and maintenance group quoted on the USM market, has acquired Advanced Business Technology and its subsidiaries from P and W MacLelland for a "nominal" consideration representing ABT's net asset value at November 1.

The acquisition is effective from that date.

ABT's activities are similar to those of Radius. It has locations in Watford and Newark and employs 45.

Mr E. Sharp said ABT's turnover this year was currently in excess of £2m, but that the company's last few months of trading had not been profitable. He anticipated some reorganisation and write-down costs after which Radius was confident of a profitable contribution from ABT.

Lifecare holders should see some return on shares

BY NIKKI TAIT

SHAREHOLDERS in Lifecare International, the nursing homes group where receivers were appointed in August, should see some return on their shares.

In a statement the directors of Lifecare—formally Edward Jones Group—said they understand that receivers Peat Marwick Mitchell have realised "more than sufficient" to meet *liabilities to* Citibank and all the company's creditors.

That still leaves certain claims by Care Homes, a BES company, against Lifecare unresolved, but the board says that it has entered an agreement with Care Homes settling the dispute. *This needs* the agreement of shareholders at a general meeting, called for January 14.

Care Homes was set up last March to start a chain of nursing homes—beginning with the renovation of Dormy House in Sunningdale — which Lifecare would then run.

Lifecare has also announced that on to December 5, former managing director, Mr C. Morris was removed from office at the instigation of institutional shareholders. Two other Lifecare directors, Dr Petty, the former chairman and Mr Lenton have since resigned and been replaced by Mr John Little and Mr Piers Moutstephens, who will act as custodians of the company's assets.

Raine agrees not to bid for Tilbury before June

BY CLAY HARRIS

Raine Industries has promised not to make a hostile offer for Tilbury Group before next June unless a bid emerges from a third party for the diversified construction group.

Raine, a housebuilder and property developer, is in the process of raising its holding in Tilbury to 23.2 per cent by buying a 20.3 per cent stake held by Govett Strategic Investment Trust.

The *undertaking* not to make a general offer without the recommendation of the Tilbury board was intended to maintain a constructive and friendly relationship between the two companies.

Raine also forecast pre-tax profits of at least £1.4m for the six months to December, against £320,000 in the 1985 period. Pro forma profits for the full year would rise to at least £2.5m, or £3.4m including Raine's share of Tilbury's profits.

Tilbury shares fell 7p to 199p on Wednesday, against the 220p that Raine is paying for the Govett trust's holding.

Guinness Peat US deal

In a deal worth $16m (£11m), *Guinness Mahon Capital Corporation*, a wholly-owned subsidiary of the Guinness Peat financial services group, has bought the fund management business of Eagle Management and Trust of Houston.

The price is made up of $14m cash and two $1m interest-free notes, maturing after two and three years respectively unless converted at those times into Guinness Peat ordinary shares at 90p each.

The purchase is Guinness Peat' second major acquisition in the US in three months. In October it bought Forstmann-Leff Associates, a New York investment company, in a deal worth around $100m.

Eagle manages over $325m for educational, charitable and other endowments and foundations, private clients and pension funds.

Guinness Peat said that based on unaudited results for the 11 months to November, 1986, Eagle's pre-tax profits would be around $1.2m on an annualised basis. The tax charge would be minimal because of Guinness Peat's available tax losses.

Mr Alastair Morton, Guinness Peat's chief executive, said the acquisition was the second stage of Guinness Peat's strategy of developing a tax-efficient earnings stream in the US fund management sector.

COMPANY NEWS IN BRIEF

A. COHEN, manufacturer of non-ferrous metal ingots, has exercised an option to buy 20 per cent of Australian company Nonferral Proprietary from Comalco. It already owned the remaining 80 per cent. Cohen is paying A$2.75m (£1.3m) for the 20 per cent stake. Nonferral's main activity is refining and trading non-ferrous metals. On December 31, 1985, the date of its last audited accounts, the net asset value was A$16.63m.

HANSON INDUSTRIES has sold its Kleinschmidt computer services company and its Hudson River Conference Centre, in separate transactions, for a total of some $13.8m. Both operations were acquired as part of Hanson's acquisition of SCM Corporation earlier this year. Kleinschmidt has been sold to a group consisting of Kleinschmidt management for $1.85m cash and $3.24m in notes and royalties. Hudson has been sold to Gladue Facilitators, a limited partnership, for about $8.7m.

***MAUNDERS**, the North West* based housing group, has acquired the major part of the house building division of Dares Estates for £3.5m cash.

This comprises six residential sites and work in progress in Dorset and Hampshire with a total sales value of £10m.

BARROW HEPBURN, the chemicals and engineering group, yesterday confirmed its rejection of Yule Catto's £17.3m takeover bid.

LONDON INTERNATIONAL GROUP has bought Cosmetco, a Californian company which assembles personal grooming kits, for a minimum $2.7m (£1.88m). There will be an initial payment of $2m, satisfied by the issue of 582,000 new shares.

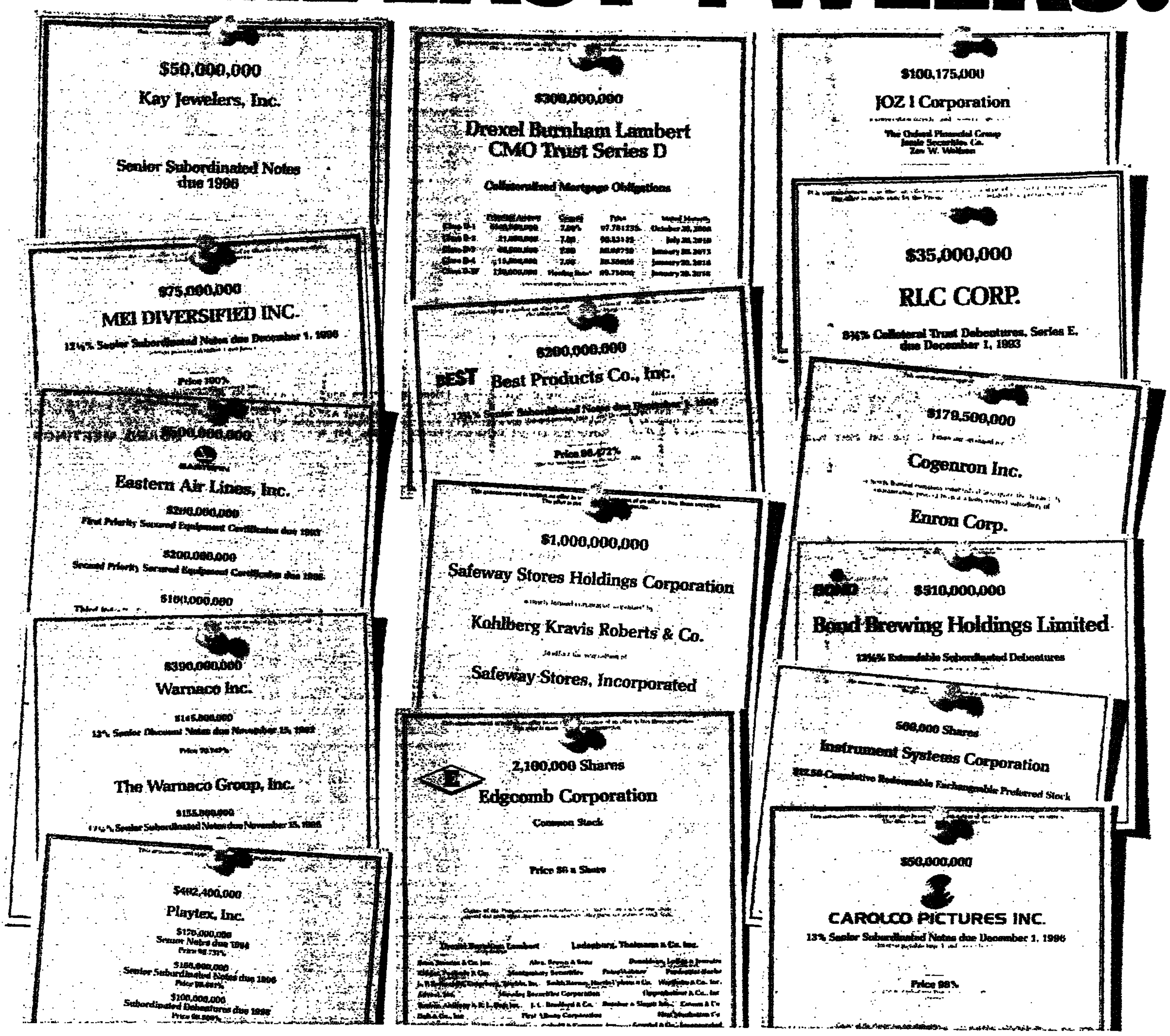
BOARD MEETINGS

TODAY	
Interims—Euston Centre Properties, Hidong Estate.	
FUTURE DATES	
Interims—	
Dixons	Jan 14
Kenyon Securities	Jan 12
Shield	Jan 13
Finals—	
Blick	Jan 20
Blue Arrow	Jan 25
Countryside Properties	Jan 7
Jersey Electricity	Jan 15
Warner Holidays	Dec 30

FINANCIAL TIMES STOCK INDICES

	Dec. 24	Dec. 23	Dec. 22	Dec. 19	Dec. 18	Dec. 17	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	83.14	82.96	82.89	82.32	82.19	82.13	94.51	80.39	127.4	49.18
Fixed Interest	89.77	89.72	89.67	89.21	89.17	89.15	97.68	86.55	150.4	50.53
Ordinary	1301.2	1294.7	1286.1	1272.1	1270.6	1276.1	1425.9	1094.3	1425.9	49.4
Gold Mines	299.6	308.9	309.2	311.4	311.3	315.9	357.8	185.7	734.7	43.5
FT-Act All Share	829.11	827.01	823.18	815.18	815.04	817.34	832.39	664.42	832.39	61.92
FT-SE 100	1665.1	1660.9	1652.2	1632.2	1630.6	1636.3	1717.6	1370.1	1717.6	986.9

WHAT HASN'T BEEN IN THE NEWS ABOUT DREXEL BURNHAM IN THE LAST 4 WEEKS.



You've probably been reading a lot of things about Drexel Burnham in the press. However, there are some things you may not have read. For example, what we accomplished during the past four weeks.

Like lead-managing a total of $4.7 billion in the public and private markets.

Or issuing 22% of all the public debt, preferred and common stock for industrial companies.

Or raising through public offerings 72% of the debt and preferred stock for industrial companies rated BB+ or lower.

Or even privately placing $1.8 billion for 10 companies, which we think accounts for more than half of all the private placements completed in that period.

Of course, none of this could have been accomplished without the help of the 10,000 people who work at Drexel Burnham. People who continue to do what they've always done so well. Open up the capital markets to America's growth companies.

Drexel Burnham

Helping People Manage Change.

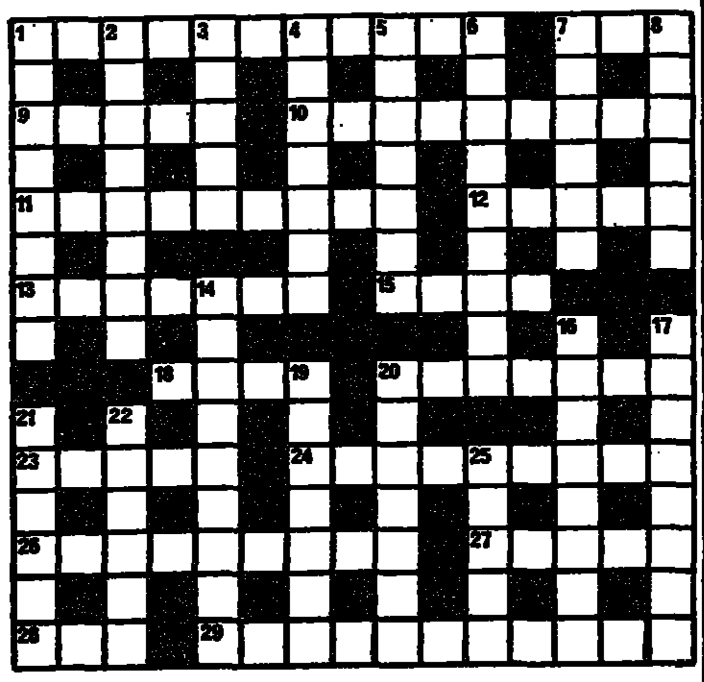
AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

FT CROSSWORD PUZZLE No 6,213

DANTE



ACROSS

1 Neat and precise form of epitaph (4, 2, 5)
7 Robust no-nonsense vehicle (3)
9 There's a number left out in the pottery (5)
10 American island cocktail (9)
11 The followers stand here when assembled (9)
12 There's nothing austere in this scent (5)
13 Venezuelan currency (7)
15 Long pointless story (4)
18 Beat the unbeatable (4)
20 A number making a noise in an examination (7)
23 Nitre treated like nitrogen (5)
24 Decline to accept some advice—it's a lot of rubbish (6, 3)
26 Profit that shouldn't be taken unfairly (9)
27 Consumer items that are cut and polished (5)
28 No opposition (3)
29 Whip out one's trading reserve? (5, 2, 4)

DOWN

1 Cooler in the car, warmer in the house (8)
2 He succeeds where all others fail (4, 4)
3 Bury 23 in a way (5)
4 Variation in tempo may make things hot (7)
5 Many set free (7)
6 So in love as to be transformed in demeanour (9)
7 It may be pressed down, but not up (6)
8 Dispatched by railway guard (6)
14 Harmonics are the obvious ones (9)
16 A song about a subject one can't stand (8)
17 Tumbles over the coal scuttle—how careless! (8)
19 Strong blow wrenched a door half off (7)
20 Sort of call a yodeller makes at a quiet time? (3-4)
21 Large girl having two husbands? (6)
22 Deserts for growing things (6)
25 Material for sedentary occupation (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

هكذا من الأصل

AUTHORISED UNIT TRUST & INSURANCES

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

World Wide Growth Management
10a, Boulevard Royal, Luxembourg

Yamaichi Capital Mngt (Guernsey) Ltd
22 Smith St, St Peter Port, Guernsey
Japan Meta Growth

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg
Advanced Tech
Dynamic Gwth Fd

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey
Zero Bond Fund $12.27

Money Market Trust Funds

Charities Aid Fndtn Money Mngmt Co Ltd
Stable Hall, Sussex Ct, Houndsditch, EC3
CAFCASH Call Fund
CAFCASH 7-day Fund

The Charities Deposit Fund
2 Fore Street, London EC2Y 5AQ
Deposit

The Money Market Trust
63 Qn Victoria St, EC4N 4ST
Call Fund
7-day Fnd

Oppenheimer Money Management Ltd
66 Cannon St, EC4N 6AE
Call Fnd
7-day Fund
Dollar 5.25

Money Market Bank Accounts

Adam & Co. plc
22 Charlotte Sq, Edinburgh EH2 4DF
Full Service Chq Acc

Aitken Hume
30 City Road, EC1Y 2AY
Treasury Acc
Mthly Int Chq £1,000-£5,000
Mth. Int. Chq. £5,000+

Allied Arab Bank Ltd
97-101 Cannon St, London, EC4N 5AD
High Int. Cheque Acc

Bank of Scotland
38 Threadneedle St, EC2P 2EH
Money Mkt Cheque Acc

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ● Yield column shows annualised rates of NAV increase. ¤¤ ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	27	NEI	8
Amstrad	15	Nat West Bk	48
BAT	35	P & O Dfd	45
BOC Grp	28	Plessey	16
BSR	11	Polly Peck	36
BTR	26	Racal Elect	15
Babcock	16	RHM	29
Barclays	42	Rank Org Ord	45
Beecham	40	Reed Intnl	29
Blue Circle	55	STC	13
Boots	22	Sears	12
Bowaters	32	TI	40
Brit Aerospace	42	TSB	8
Brit. Telecom	17	Tesco	36
Burton Ord	26	Thorn EMI	42
Cadburys	17	Trust Houses	15
Charter Cons	24	Turner Newall	18
Comm Union	28	Unilever	90
Courtaulds	26	Vickers	36
FNFC	17	Wellcome	17
Gen Accident	75	Property	
Gen Electric	15	Brit Land	16
Glaxo	85	Land Securities	30
Grand Met	40	MEPC	32
GUS 'A'	85	Peachey	24
Guardian	75	Oils	
GKN	24	BOM	$9\frac{1}{2}$
Hanson Tst	18	Brit Petroleum	50
Hawker Sidd	42	Burmah Oil	32
ICI	75	Charterhall	4
Jaguar	42	Premier	$3\frac{1}{2}$
Ladbroke	32	Shell	65
Legal & Gen	20	Tricentrol	8
Lex Service	32	Ultramar	17
Lloyds Bank	38	Mines	
Lucas Inds	46	Cons Gold	62
Marks & Spencer	18	Lonrho	22
Midland Bk	48	Rio T Zinc	42
Morgan Grenfell	26		

A selection of Options traded is given on the London Stock Exchange Report Page.

APPOINTMENTS

Managing director for Solicitors' Law

Mr Jim Ducker has been appointed managing director of THE SOLICITORS' LAW STATIONERY SOCIETY, a subsidiary of Hollis Financial and Professional Services. Mr Ducker was formerly managing director of Pergamon Infoline.

★

MEDENS TRUST, a wholly-owned subsidiary of Brown, Shipley & Co, has appointed Mr Robin Owens as managing director. He is a former director of Forward Trust Group, and replaces Mr Rodney Hilton who has left the company and the board of Brown, Shipley & Co.

★

Mr Ed Lorimer and Mr Ian Walker have joined HUNTING OILFIELD SERVICES as technical director and general manager, sales and marketing, respectively. Mr Lorimer was engineer director, Oilfab Group, and Mr Walker joins from CanOcean where he was general manager.

★

Sir Colin Ross Corness has been appointed a director of the BANK OF ENGLAND for four years from March 1 in place of Lord Nelson of Stafford. Sir Colin is chairman of Redland. Reappointed for the same term are Sir Hector Laing, chairman of United Biscuits (Holdings); Sir John Baring, chairman of Baring Brothers & Co; and Sir Martin Jacomb, chairman of Barclays de Zoete Wedd, deputy chairman of Barclays Bank, and deputy chairman of the Securities and Investment Board.

★

Mr David Wood has been appointed finance director of CONNELS ESTATE AGENTS following the retirement of Mr Gordon Bickerton.

★

CRAY ELECTRONICS HOLDINGS has appointed Mr Mark N. Dyer as a non-executive director.

★

INVESTORS IN INDUSTRY GROUP (3i) has appointed Mr Ralph Nicholas Quartano as a non-executive director from January 1. He is chief executive of PosTel Investment Management and a member of the Securities and Investment Board. Mr Wallace Mackenzie will be retiring from the board on December 31.

★

Mr Martin Lister is to become a director of SAVE & PROSPER INVESTMENT MANAGEMENT on January 1. He is in charge of Save & Prosper's US funds.

★

Mr Peter de Fiana has been appointed managing director and Mr Martin W. Bush deputy chairman of BERISFORD MOCATTA (UNDERWRITING AGENCIES) from January.

★

At HARRISON INDUSTRIES Mr Jean-Claude Canari has become a director. He has been with the French subsidiary for nearly ten years.

★

LEASE MANAGEMENT SERVICES has appointed Mr Alastair Lawson joint managing director. Mr Dominic McCarthy will continue as chief executive and joint managing director. Mr David Deacon, chief accountant and company secretary, becomes a director. All of these changes are from January 1.

★

Mr Philip Morgan has become general manager and Mr Ken Musgrave underwriting manager at HIR (UK).

★

Mr W. B. Carmichael, chairman and managing director of Aitken Campbell & Co. and Aitken Campbell (Gilts) has been appointed a director of THE UNION DISCOUNT CO OF LONDON from December 31.

★

CLIFTON INNS has appointed Mrs Helen Fitcher as personnel director.

★

NEWCASTLE BUILDING SOCIETY was confirmed Mr E. A. Cowan as deputy chief executive. This appointment follows the recent announcement of Mr D. W. Midgley as the Society's chief executive and anticipates the pending retirement, in March of Mr P. Langley-Essen, managing director.

★

At LOMBARD CONTINENTAL the deputy general manager, Mr Andrew Laing, will be promoted to deputy general manager on January 1.

★

THE HAMMERSON PROPERTY INVESTMENT AND DEVELOPMENT CORPORATION has appointed Mr John R. Parry joint managing director with effect from January 1. He joined the company in January, 1984 and was made deputy managing director in October of that year. He will share responsibilities with Mr Sydney Mason, who remains chairman.

★

HDA FORGINGS, part of the Hawker Siddeley Group, has announced that Mr Peter Masters will become company sales and marketing director and Mr Charles Andersen director and general manager of the blade forging division of the company from January 5.

★

Mr P. R. (Paul) Rawson has been appointed financial controller of LLOYD'S REGISTER from January 1. He succeeds Mr F. R. (Frank) Vickers, who will remain as a consultant until April, when he will retire after 36 years service with LR.

★

Mr V. Millar will be appointed to the board of SAATCHI & SAATCHI from tomorrow.

★

Dr G. B. Turner will be retiring from the board of COURTAULD's at the end of January. Mr M. Glynn will take responsibility for the development of the group's packaging interests from January 1. He will become chairman of BCL and Betts. From February 1 Mr G. A. Campbell will assume responsibility for the pulp group, and Mr R. D. Lapthorne will become the director responsible for the Courtaulds Pensions Common Investment Fund.

★

GREAT PORTLAND ESTATES has announced that Mr Basil Samuel has retired as a director but will continue as president.

★

Mr Anthony Crichton-Brown, director of Edward Lumley Ltd in Australia is moving to London to become managing director, EDWARD LUMLEY HOLDINGS by the end of March. He will continue as a director of Edward Lumley Ltd and has also been appointed deputy chairman of that subsidiary. Mr Rodney Leslie is appointed principal executive officer in Australia. Mr John Jarvis is to be managing director of Lumley UK Holding Company, which will manage all UK subsidiaries of Edward Lumley Holdings.

★

ALLIED DUNBAR has made the following changes from January 1. Mr Allan McColville is appointed executive director, northern region; Mr Derek Riley becomes executive director, sales; Mr Nigel Barton is made executive director, international and new projects; and Mr Brian Thomas is appointed executive director, actuarial.

★

ADWEST GROUP has appointed Mr Ted Jones, divisional chief executive, electrical, as a director.

Eurotunnel joint board

Mr Jean-Loup Dherse, chief executive of Eurotunnel, and Mr Michael Julien, deputy chief executive, have been appointed to the joint board of EUROTUNNEL, the Anglo-French partnership responsible for the construction and operation of the Channel Tunnel.

★

BAIN DAWES has appointed Mr Julian Currie as managing director of Bain Dawes Anglia and Mr Howard Westwood as a director of the Birmingham office.

★

Mr Michael Mander has been appointed to the board of HILL SAMUEL & CO.

★

CHAMPION SPARK PLUGS has appointed Mr Bill Graham as UK managing director. He was director of finance and business development Europe—based in Brussels.

★

MARKS AND SPENCER has appointed Dr David Atterton as a non-executive director from January 1. He is a member of the court of the Bank of England and is on the boards of Barclays Bank, British Coal and other public companies. He has just retired as chairman of Foseco Minsep.

★

Mr Nigel Whittaker has been appointed chairman of the Confederation of British Industry's distributive trades panel in succession to Mr John Salisse. Mr Whittaker is chairman of B & Q and a director of Woolworth Holdings.

★

The following have joined SALE TILNEY'S main board: Mr J. B. Buchanan, Mr J. H. Cahill and Mr R. T. D. Stott. Mr Buchanan is managing director of Sale Tilney Technology; Mr Cahill is managing director of the group's insurance division; and Mr Stott is chairman of R. L. Stott & Co (I.O.M.), which was recently acquired by Sale Tilney.

★

At QUADREX SECURITIES Mr J. Michael Galbraith has been appointed director in charge of sales.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
22Jul	22Jan	Exch. 13¼pc 1987	100¼xd	16.12	13.24	9.74
10 Aug	10 Feb	Treas 10¼pcCv '87	99¾	4.7	10.27	11.43
24Aug	24Feb	Exch 2½pc 1987	98¾	18.7	2.53	10.11
6Oct	6Apr	Exch. 10½pc 1987	99¾	1.9	10.52	11.01
1 Nov	1 May	Funding 6½pc 85-87	98¾	25.9	6.58	10.12
12Dec	12Jne	Treas. 10pc 1987	99¾	18.12	10.04	11.00
14Jan	14Jly	Treas 3pc 1987	97¼xd	8.12	3.09	8.73
3May	3Nov	Treas. 12pc 1987	100¾	29.9	11.91	10.93
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	97¼xd	22.12	7.97	10.56
10Nov	10May	Exch 10½pc '88	99¾	6.10	10.56	10.95
14Dec	14Jne	Treas 9¾pc Cv '88	98¾	18.12	9.91	11.01
1Jan	1Jul	Transport 3pc '78-88	92¾xd	25.11	3.23	8.23
25 Apr	25 Oct	Treas. 9½pc '88	97¾	18.9	9.75	11.05
22 Aug	22 Feb	Treas 11½pc 1989	100¾	16.7	11.41	11.00
18 Oct	18 Apr	Treas 9½pc Cnv 1989	96¾	11.9	9.80	11.00
15Nov	15May	Treas 3pc 1989	88¾	9.10	3.39	8.38
14Dec	14Jan	Treas 10½pc 1989	98¾	18.12	10.61	10.99
1Feb	1Aug	Exch 10pc 1989	97¾	25.6	10.24	11.05
29 Mar	29 Sep	Exch 11pc 1989	99¾	26.8	11.01	11.01
15 Apr	15 Oct	Treas 5pc 1986-89	89¼	8.9	5.61	9.51
15 May	15 Nov	Exch 10¼pcCv '89	100¼	9.10	10.17	9.92
15 Jul	15 Jan	Treas 13pc 1990‡‡	105¼xd	9.12	12.34	10.91
12 Aug	12 Feb	Exch 11pc 1990‡‡	100¼	7.7	11.00	10.95
22 Sep	22 Mar	Exch. 12½pc 1990	104¼	18.8	12.00	10.94
8 Nov	8 May	Treas. 3pc 1990	84¼	2.10	3.54	8.30
15 Dec	15 Jne	Treas 8¼pc 1987-90‡‡	93¼	18.12	8.86	10.68
25 Apr	25 Oct	Treas. 10pcCv 1990	97	18.9	10.31	10.97
22 May	22 Nov	Exch 2½pc 1990	81¼	16.10	3.07	8.14
10 July	10 Jan	Treas 11¾pc 1991	102¼xd	4.12	11.46	10.97
5Oct	5Apr	Funding 5¾pc '87-91‡‡	86¾	1.9	6.62	9.56
13 Nov	13 May	Treas. 3pc 1991●	79¾	—	3.75	8.61
12Jan	12July	Treas 10pc Cv '91	98¼xd	8.12	10.15	10.43
25Apr	25Oct	Exch. 11pc 1991	100¼	18.9	10.95	10.94
		Five to Fifteen Years				
22Jly	22Jan	Treas 12¾pc 1992‡‡	107¼xd	16.12	10.89	10.86
21Aug	21Feb	Treas 10pc 1992	96¾	15.7	10.35	10.85
7 Nov	7 May	Treas 10½pc Cv 1992‡‡	98¾	1.10	10.65	10.85
25 Feb	25 Aug	Exch. 12¼pc '92	105¼	21.7	11.63	10.93
22Mar	22Sep	Exch 13½pc 1992	110¼	18.8	12.21	10.95
15Oct	15Apr	Treas 10pc 1993‡‡	96¾	8.9	10.36	10.86
14Jan	14Jul	Treas 12½pc 1993‡‡	107¼xd	8.12	11.66	10.93
15Mar	15Sep	Funding 6pc 1993‡‡	82¾	11.8	7.28	9.62
23May	23Nov	Treas 13¾pc 1993‡‡	113¼	17.10	12.13	10.94
1 Sept	1 Mar	Treas 14½pc 1994‡‡	117¼	28.7	12.35	10.92
27Oct	27Apr	Exch 13½pc 1994	112¾	22.9	12.05	11.05
22Feb	22Aug	Exch. 12½pc 1994	107¼	16.7	11.65	11.04
17May	17Nov	Treas 9pc 1994‡‡	91¼	13.10	9.91	10.75
25Jul	25Jan	Treas 12pc 1995	105¾xd	19.12	11.39	11.00
1Nov	1May	Exch 3pc Gas 90-95	74¾	25.9	4.01	7.03
21Jan	21Jul	Exch. 10¼pc 1995	96¾xd	15.12	10.61	10.89
15May	15Nov	Treas 12¾pc 1995‡‡	110¼	9.10	11.58	10.94
22Jly	22Jan	Treas. 14pc '96	117¼xd	16.12	12.01	11.07
15Sep	15Mar	Treas 9pc 1992-96‡‡	90¾	11.8	9.94	10.64
3Nov	3May	Treas 15¼pc 1996‡‡	124¾	29.9	12.31	11.08
15Nov	15May	Exch 13¼pc 1996‡‡	113¾	9.10	11.64	10.85
		[illegible]	79¾	25.9	3.76	5.72

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont.

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

حكاية من الأصل

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc

[illegible]

FINANCE, LAND—Cont.

[illegible]

OIL AND GAS

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

MINES—Continued

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Yld Gr's
—	Anglo-Dominion	147	—	—	—	—
—	Anglo Utd	33	14.7	—	—	—
—	♦Colby Res Corp	26	—	—	—	—
Aug. Feb	Cons. Murch. 10c	£1½	14.7	Q60c	4.4	9.9
—	♦Essex Int 1r10p	39	—	—	—	—
—	Greenwich Res	153	—	—	—	—
Apr Oct	Hampton Areas 10p	147	23.12	♦1.0	—	1.0
—	♦Highwood Res	207	—	—	—	—
Fb Jun Ag Nv	Homestake Mining $1	£17½	29.10	Q20c	—	0.8
—	♦McFinley Red Lake	194	—	—	—	—
—	♦Musto Explorations	140	—	—	—	—
—	♦New Sabina Res C$1	39½	—	—	—	—
—	Northgate C$1	324	9.77	—	—	—
Jan. July	RTZ	692	27.10	22.0	2.4	4.6
Jan July	Do. 9½pcLn '95-2000	£140½	27.10	Q9½%	15.5	7.0

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ‡ Not comparable.
- ♦ Same interim, reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ‡ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- || No par value.

B.Fr Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	62	+2
Craig & Rose £1	£15	+¼
Finlay Pkg. 5p	52	+5
Holt (Jos) 25p	823	−2
IoM Stm. £1	76	−2
IRISH		
Fund 11¼% 1988	£97⅛	....
Nat. 9¼% 84/89	£91⅞	....
Fin. 13% 97/02	£98¾	....
Arnotts	390	+10
CPI Hldgs	42	.....
Carrol Inds.	141	.....
Dublin Gas	10	.....
Hall (R & H)	100	.....
Heiton Hldgs.	27	.....
Irish Ropes	145	.....
Unidare	285	.....

"Recent Issues" and "Rights" Page 19

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

CONSTRUCTION

Testing the ground for Channel Tunnel

TERRESEARCH has commenced work on the first of two geotechnical surveys as part of preliminary works on the Channel Tunnel project. The company has received a contract from Translink, the construction consortium for the cross-Channel link, to conduct a site investigation of an area of foreshore near Dover to assess its suitability for the disposal of spoil from the British section of the tunnel. Offshore drilling will be carried out during a 10-week period over a 1.5 km stretch of coastline between Shakespeare Cliff and Abbot's Cliff, Kent. Up to 14 boreholes will be drilled from a jack-up platform using both cable percussion and rotary drilling. Work will also commence shortly on a second survey for the project. This entails construction of about 85 boreholes and 120 trial pits at the proposed sites for the British terminals at Cheriton near Folkestone, and Ashford, Kent, to provide information for the design of the terminal buildings, earthworks, structures and road and rail accesses.

Wimpey Laboratories, a subsidiary of George Wimpey, has also been awarded a £1.27m contract by Translink for geotechnical subset site investigation of the roue of the projected Channel Tunnel. Working from a self-elevating drilling platform — the "Lancelot" — a maximum of 11 rock cores of 85 mm diameter will be taken from depths of up to 100 metres into, and below, the sea bed on both sides of the Channel.

Bore holes will be drilled using up-to-date wire-line drilling techniques to establish engineering parameters for the tunnel designers. In situ tests, using packers, will assess the permeability of the rock surrounding the bore holes. Geophysical logging in the bore holes themselves will provide essential further data on the density and structure of adjacent strata. Holes produced by drilling and coring will be sealed by cement grouting. In South East England, Wimpey Laboratories is engaged in drilling 29 bore holes on the line of approach to the tunnel under a separate Translink contract.

Repairing Ely Cathedral roof

A £1.5m contract for repairs to the nave and aisle roofs of Ely Cathedral has been awarded to RATTEE & KETT, Cambridge-based member of the John Mowlem Group. The project is the first phase of the current appeals programme for the restoration of Ely Cathedral and involves repairs to the decaying timber roof structure and complete releading of the roof, masonary repairs, and reglazing of the clerestory together with other conservation. The client is the Dean and Chapter of Ely Cathedral and the work, under the direction of the Surveyor of the Fabric, Mr Peter Miller, is due to start in January for completion in two years. Rattee & Kett's association with Ely goes back to the 1940s when the company's founder, James Rattee, was employed on the design and carving of the stone reredos for the cathedral, and more recently has included restoration of the West Tower and the famous Ely Lantern. Rattee & Kett has also been awarded a £250,000 contract from Newark District Council for stonemasonary repairs and the restoration of Newark Castle in Nottinghamshire.

★

JOHN WILLMOTT HOUSING, a subsidiary of the John Willmott Building Group, has been awarded a contract worth in the region of £3.2m by the Declan Kelly Group for the construction of 14 flats and 64 houses at Cowley, Middlesex. A. E. Symes, another subsidiary, has been awarded a contract worth about £1.25m by Clayform Properties to build offices and flats at St John's Square, EC1. John Willmott/Cambridge has been awarded a contract worth about £1.5m by Spicers at Sawston, Cambridge, for an extension to the central distribution warehouse.

★

The FAIRCLOUGH-DRAKE & SCULL joint venture has been awarded a £2.2m contract to construct a boiler house at the Great Ormand Street Hospital for Sick Children in London. The boiler house will incoporate six boilers, chimneys and all associated equipment to connect to the hospital's distribution mains. There will be four high-pressure hot water units.

Largest BR car park

British Rail has placed a £5m contract with JOHN LAING CONSTRUCTION for a multi-storey car park at Reading Station, Berks. The car park, with spaces for 1,600 cars, forms part of a new station complex costing £14m and will be sited on land to the north of the London (Paddington) main line formerly occupied by sidings.

Work is expected to start in February, with completion early in 1988. The park is believed to be the largest on British Rail and in Berkshire. It will be linked to the glass and steel station with its travel shop, lounges and buffets by bridge, escalators and lifts. Foundation work for the station started in July and the building should be open by mid-1989.

Middle East steelwork orders for Cleveland

Three steelwork contracts with a combined value of £3.5m have been secured in Kuwait and the UAE by Trafalgar House's specialist steel fabricators CLEVELAND BRIDGE AND ENGINEERING MIDDLE EAST (PTE) Dubai. The larges awarded by Kuwait National Petroleum Company is for 3,000 tonnes of steelwork for the galleries and transfer towers of a petroleum coke handling plant which will transport material from Mina Abdullah Refinery to Shuwaik Port, for loading on to ships. The contract includes erection as well as fabrication and supply. Fabrication is underway and erection will commence in the new year. The contract is scheduled for completion in mid-1987.

For Dubai Electric Company, Cleveland is to supply, facricate and erect steelwork for a nextension to the Jebel Ali turbine and desalination plant. Initially some 800 tonnes of steel is involved, but it is likely this will rise to a total of 1,500 tonnes as design work on the turbine hall and associated structures progresses. Another Trafalgar House company, John Brown Engineering, is supplying two turbine units for the extended plant. Cleveland Bridge has also secured a maintenance contract worth £300,000 for the Maktoum and Sarhoud Bridges from Dubai Municipality.

The table below gives the rates of exchange for the U.S. dollar against various currencies as of Wednesday, December 24, 1986. The exchange rates listed are middle rates between buying and selling rates as quoted between banks, unless otherwise indicated. All currencies are quoted in foreign currency units per one U.S. dollar except in certain specified areas. All rates quoted are indicative. They are not based on, and are not intended to be used as a basis for, particular transactions.

Bank of America NT & SA does not undertake to trade in all listed foreign currencies, and neither Bank of America NT & SA nor the Financial Times assume responsibility for errors.

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ECU=$US1.05632 *SDR1=$US1.21367*
As of December 24, at 11.00 a.m.

	3 months	6 months
Eurodollar Libor:	6 5/16	6 3/8
Sibor:	6 5/16	6 3/8

COUNTRY	CURRENCY	VALUE OF DOLLAR
Afghanistan	Afghani (o)	50.60
Albania	Lek	6.9416
Algeria	Dinar	4.63
Andorra	French Franc	6.478
	Spanish Peseta	133.18
Angola	Kwanza	29.918
Antigua	E. Caribbean $	2.70
Argentina	Austral	1.233
Aruba	Florin	1.80
Australia	Dollar	1.5147
Austria	Schilling	13.845
Azores	Portuguese Escudo	147.55
Bahamas	Dollar	1.00
Bahrain	Dinar	0.3769
Balearic Islands	Spanish Peseta	133.18
Bangladesh	Taka	30.80
Barbados	Dollar	2.0113
Belgium	Franc (c)	40.975
	Franc (f)	41.45
Belize	Dollar	2.00
Benin	C.F.A. Franc	323.90
Bermuda	Dollar	1.00
Bhutan	Ngultrum	13.12
Bolivia	Peso (o)	1912000.00
	Peso (f)	1923000.00
Botswana	Pula	1.8529
Brazil	Cruzado (o)	14.59
Brunei	Dollar	2.187
Bulgaria	Lev	0.902
Burkina Faso	C.F.A. Franc	323.90
Burma	Kyat	7.0106
Burundi	Franc	101.098
Cameroun Rp.	C.F.A. Franc	323.90
Canada	Dollar	1.3773
Canary Islands	Spanish Peseta	133.18
Cape Verde Islands	Escudo	89.2698
Cayman Islands	Dollar	0.835
Central Africa Rep.	C.F.A. Franc	323.90
Chad	C.F.A. Franc	323.90
Chile	Peso (o)	200.97
China	Renminbi Yuan	3.722
Colombia	Peso (o)	218.03
Comoros	C.F.A. Franc	323.90
Congo People's Rep. of	C.F.A. Franc	323.90
Costa Rica	Colon	58.90
Cote d'Ivoire	C.F.A. Franc	323.90
Cuba	Peso	0.8033
Cyprus	Pound*	1.9418
Czechoslovakia	Koruna (o)	5.75
Denmark	Krone	7.445
Djibouti Rep. of	Franc	177.00
Dominica	E. Caribbean $	2.70
Dominican Republic	Peso	3.05
	Peso (d)	3.03
Ecuador	Sucre (o)	145.70
	Sucre (f)	146.50
Egypt	Pound (o)	0.70
	Pound (b)	1.36
El Salvador	Colon	2.50
	Colon (d)	5.00
Equatorial Guinea	C.F.A. Franc	323.90
Ethiopia	Birr (o)	2.0584
Faeroe Islands	Danish Krone	7.445
Falkland Islands	Pound*	1.455
Fiji	Dollar	1.1561
Finland	Markka	4.845
France	Franc	6.478
French C'ty in Africa	C.F.A. Franc	323.90
French Guiana	Franc	6.478
French Pacific Islands	C.F.P. Franc	117.782
Gabon	C.F.A. Franc	323.90
Gambia	Dalasi	7.58
Germany (East)	Ostmark (o)	1.9675
Germany (West)	Deutsche Mark	1.9675
Ghana	Cedi	152.00
	Cedi (n)	90.00

COUNTRY	CURRENCY	VALUE OF DOLLAR
Gibraltar	Pound*	1.455
Greece	Drachma	140.73
Greenland	Danish Krone	7.445
Grenada	E. Caribbean $	2.70
Guadaloupe	Franc	6.478
Guam	U.S. $	1.00
Guatemala	Quetzal (o)	1.00
	Quetzal (h, l)	2.57
Guinea Bissau	Peso	170.479
Guinea Republic	Franc	340.00
	Franc (j)	300.00
Guyana	Dollar	4.4096
Haiti	Gourde	5.00
Honduras Republic	Lempira	2.00
	Lempira (d)	2.10
Hong Kong	Dollar	7.796
Hungary	Forint	46.287
Iceland	Krona	40.56
India	Rupee	13.12
Indonesia	Rupiah	1644.00
Iran	Rial (o)	76.0505
Iraq	Dinar	0.3109
Irish Republic	Punt*	1.3815
Israel	New Shekel	1.4835
Italy	Lira	1365.30
Jamaica	Dollar (o)	5.50
Japan	Yen	161.80
Jordan	Dinar	0.358
Kampuchea	Riel	n.a.
Kenya	Shilling	15.8239
Kiribati	Australian Dollar	1.5147
Korea (North)	Won	0.94
Korea (South)	Won	861.60
Kuwait	Dinar	0.2945
Laos P'les D Rep.	Kip	35.00
Lebanon	Pound	72.50
Lesotho	Maloti	2.2198
Liberia	Dollar	1.00
Libya	Dinar	0.3169
Liechtenstein	Swiss Franc	1.648
Luxembourg	Luxembourg Franc	40.975
Macao	Pataca	8.1039
Madagascar Dem. Rep.	Franc	730.006
Madeira	Portuguese Escudo	147.55
Malawi	Kwacha	1.9897
Malaysia	Ringgit	2.598
Maldive Islands	Rufiyaa	7.00
Mali Republic	C.F.A. Franc	323.90
Malta	Lira*	2.6918
Martinique	Franc	6.478
Mauritania	Ouguiya	74.80
Mauritius	Rupee	13.372
Mexico	Peso (d)	903.50
	Peso (e)	906.80
Miquelon	French Franc	6.478
Monaco	French Franc	6.478
Mongolia	Tugrik (o)	3.3555
Montserrat	E. Caribbean $	2.70
Morocco	Dirham	8.75
Mozambique	Metical	39.913
Namibia	S. A. Rand	2.2198
Nauru Islands	Australian Dollar	1.5147
Nepal	Rupee	21.40
Netherlands	Guilder	2.225
Netherlands Antilles	Guilder	1.80
New Zealand	Dollar	1.9121
Nicaragua	Cordoba	900.00
	Cordoba (o)	70.00
	Cordoba (d)	1500.00
Niger Republic	C.F.A. Franc	323.90
Nigeria	Naira (d)	3.3166
	Naira (o)	2.5954
Norway	Krone	7.485
Oman Sultanate of	Rial	0.385
Pakistan	Rupee	17.258
Panama	Balboa	1.00

COUNTRY	CURRENCY	VALUE OF DOLLAR
Papua New Guinea	Kina	0.9657
Paraguay	Guarani (o)	240.00
	Guarani (p)	550.00
	Guarani (d)	630.00
Peru	Inti (o)	13.95
	Inti (f)	20.20
Philippines	Peso	20.57
Pitcairn Islands	N.Z. Dollar	1.9121
Poland	Zloty (o)	199.21
Portugal	Escudo	147.55
Puerto Rico	U.S. $	1.00
Qatar	Riyal	3.641
Reunion Isle de la	French Franc	6.678
Romania	Leu (o)	4.30
	Leu (c)	10.66
Rwanda	Franc	84.6278
St. Christopher	E. Caribbean $	2.70
St. Helena	Pound*	1.455
St. Lucia	E. Caribbean $	2.70
St. Pierre	French Franc	6.478
St. Vincent	E. Caribbean $	2.70
Samoa (Western)	Tala	2.246
Samoa (US)	US $	1.00
San Marino	Italian Lira	1365.30
São Tomé & Principe DR	Dobra	37.2837
Saudi Arabia	Riyal	3.751
Senegal	C.F.A. Franc	323.90
Seychelles	Rupee	5.9609
Sierra Leone	Leone	31.00
Singapore	Dollar	2.187
Solomon Islands	Dollar	1.9724
Somali Republic	Shilling (d)	113.00
South Africa	Rand (f)	4.4444
	Rand (c)	2.2198
Spain	Peseta	133.18
Spanish ports in North Africa	Spanish Peseta	133.18
Sri Lanka	Rupee	28.518
Sudan Republic	Pound (o)	2.45
	Pound (k)	2.93
	Pound (f)	4.00
Surinam	Guilder	1.785
Swaziland	Lilangeni	2.2198
Sweden	Krona	6.855
Switzerland	Franc	1.648
Syria	Pound (o)	3.925
Taiwan	Dollar (o)	35.69
Tanzania	Shilling	51.605
Thailand	Baht	26.18
Togo Republic	C.F.A. Franc	323.90
Tonga Islands	Pa'anga	1.5147
Trinidad & Tobago	Dollar	2.409
	Dollar (b)	3.60
Tunisia	Dinar	0.84
Turkey	Lira	757.84
Turks & Caicos Islands	US $	1.00
Tuvalu	Australian Dollar	1.5147
Uganda	Shilling (l)	1408.20
United Arab Emirates	Dirham	3.673
United Kingdom	Pound Sterling*	1.455
Uruguay	Peso (m)	179.00
USSR	Rouble	0.6783
Vanuatu	Vatu (2)	117.001
Vatican	Lira	1365.30
Venezuela	Bolivar (o) (4)	14.50
	Bolivar (g) (1)	7.50
	Bolivar (d)	20.75
Vietnam	Dong (0) (3)	80.00
Virgin Islands (British)	US $	1.00
Virgin Islands (US)	US $	1.00
Yemen	Rial	10.50
Yemen PDR	Dinar	0.343
Yugoslavia	Dinar	454.96
Zaire Republic	Zaire	69.685
Zambia	Kwacha	12.5723
Zimbabwe	Dollar	1.6889

n.a. Not available. (m) Market rate *U.S. dollars per National Currency unit. (a) Freemarket central bank. (o) Official rate. (b) Floating Rate. (c) Commercial rate. (d) Freemarket. (e) Controlled. (f) Financial rate. (g) Preferential rates. (h) Non essential imports. (i) Floating tourist rate. (j) Public Transaction Rate. (k) Agricultural products. (l) Priority Rate. (n) Essential imports. (p) Exports. (1) Venezuela: For debts incurred prior to February 1983. (2) Vanuatu, 23 Oct. 1986: Vatu devalued by approx. 24.1% against SDR. (3) Vietnam, 7 Nov. 1986: Dong devalued by approx. 81%. (4) Venezuela, 7 Dec. 1986: Bolivar devalued by approx. 48%.
For further information please contact your local branch of the Bank of America.

DIARY DATES

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

BOARD MEETINGS—

Trade fairs and exhibitions: UK

January 15-18
Antiques Fair (04447 2514) — Kensington Town Hall

January 18-22
International Light Show (05884 658) — Olympia

January 20-22
Office and Contract Interiors Exhibition — DESIGN (01-868 4499) — Design Centre

January 22-25
Ideal Home Exhibition (0202 296275) — Metro Exhibition Hall, Brighton

January 23-25
Holiday and Leisure Sepctacular (01-583 9199) — Kensington Exhibition Cenre

January 27-29
Hirex Exhibition (01-688 7788) — Wembley Conference Centre

January 31-February 4
British International Toy and Hobby Fair (01-701 7127) — Earls Court

February 1-5
International Spring Fair (Gift section 01-855 9201, Hardware section 0604 22023) — NEC, Birmingham

February 3-4
Entrepreneurs' Exhibition (01-493 0000) — Royal Garden Hotel, W8

Overseas

January 9-12
International Furniture Exhibition (01-439 3964) — Paris

January 12-15
Middle East Electronics Communications Show and Conference—MECOM (01-486 1951) — Bahrain

January 13-18
International Furniture Fair (01-930 7251) — Cologne

January 14-20
International Oil and Gas Chemical and Process Engineering Industries Exhibition and Conference—CHEMTECH AND ORT (01-221 2043) — Bombay

January 15-18
Travel Exhibition (01-486 1951) — Helsinki

January 18-21
Hong Kong Fashion Week (01-930 7955) — Hong Kong

January 31-February 8
Caravan, Camping, Car, Boat, Garden and Tourism and Leisure Exhibition (01-651 2191) — Hanover

February 21-25
Spring Fair (01-734 0543) — Frankfurt

February 25-March 3
International Fairs: Food; Materials Handling and Warehousing; Packaging and Printing (021-455 9600) — Brno

Business and Management Conferences

January 19
International Business Communications: Long-term finance for commercial property development (01-236 4080) — London Press Centre, EC4

January 20
IBC Legal Studies and Services: The annual company report (01-236 4080) — Portman Hotel, W1

January 21-22
IBC: Control accounting and taxation of bank risk (01-236 4080) — Café Royal, W1

January 22
The Strategic Planning Society: Strategic issues for the 1990s—new frontiers? (01-235 0246) — 6 John Adam Street, WC2

January 26-27
Brunel Management Programme: Managing stress at work (0895 56461) — Brunel University, Uxbridge

January 27
Longman Seminars: Relief from Capital Gains Tax (01-242 4111) — Barbican Centre, EC2

January 27
NEDO: Who benefits from corporate venturing? (01-211 3100) — Café Royal, W1

January 28-30
Insurance and Reinsurance Research Groups: Cargo insurance clauses international workshop (01-236 2175) — Tower Hotel, EC3

January 28
IBC Legal Studies and Services: Takeovers and acquisitions in the US—the key issues (09323 55244) — London Press Centre, EC4

January 28
CCH Editions; The practical implications of the Financial Services Act (01-491 1322) — Hyde Park Hotel, SW1

January 28-29
Euromoney Publications: The gilts market explosion (01-236 3288) — Hilton Hotel, W1

January 29-30
Financial Times Conferences: The Second FT Defence Conference—entering the American market (01-621 1355) — Hotel Inter-Continental, W1

January 30
Oracle Business Information: Basic accounting for life offices (01-727 3503) — CFS Conference Centre, W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Parliament

COMMONS

Business for wek beginning January 12, after Christmas holidays:

MONDAY: Local Government Finance Bill, second reading.

TUESDAY: Debate on the Army.

WEDNESDAY: Debate initiated by the Opposition, subject to be named after Christmas. Industrial Training Levy (Construction Board) Order 1987, motion.

THURSDAY: Coal Industry Bill, remaining stages. City of London (Various Rights) Bill.

FRIDAY: Private members' business, includingo Free Television Licences for Pensioners Bill, Obscene Publications Bill, and Police Complaints Authority (Information) Bill, all second reading.

WORLD STOCK MARKETS

AUSTRIA

1986 High	Low	Dec. 24	Price Sch
2,650	2,120	Creditanst Pfd	2,130
3,820	2,075	Goesser	3,390
17,000	12,700	Interunfall	13,400
[illegible]	11,305	Jungbunzlauer	11,670
2,475	1,920	Laenderbank	2,180
735	520	Perlmooser	615
311	152	Steyr Daimler	161
17,500	8,850	Veitscher Mag	11,145

BELGIUM/LUXEMBOURG

DENMARK

NORWAY

ITALY

GERMANY

FRANCE

AUSTRALIA

HONG KONG

FINLAND

SWEDEN

SWITZERLAND

NETHERLANDS

SINGAPORE

SOUTH AFRICA

JAPAN

SPAIN

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

OVER-THE-COUNTER

Nasdaq national market, closing prices December 26

Continued from Page 27

Closing prices, December 26

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	16¾	AAR s	.44	1.8	17	44	24⅝	24	24⅛	⅛
30	21¾	ADT	.92	3.5		98	26⅝	26⅛	26¼	+½
33	16½	AFG s	.12b	.4	14	206	29⅛	28¾	29⅛	+¼
29	16¾	AGS			18	20	27¾	27½	27¾	+⅜
15	6¾	AMCA				3	7	7	7	+⅛
62½	39½	AMR			13	2108	54⅞	54⅜	54¾	
27½	23¾	ANR pf 2.67		10.		1	26	26	26	
16½	10	ARX	.711	6.2	11	81	11¾	11½	11½	-¼
41½	28¾	ASA	2a	5.6		87	35⅞	35½	35½	-⅜
18⅝	9¾	AVX		3.0		43	10¾	10⅝	10¾	+⅛
32	26	AZP	2.72	9.6	8	490	28⅝	28⅜	28⅜	
55	31⅝	AbtLb s	.84	1.8	21	1422	48⅛	47⅝	48	-¼
32	25	AccoWd.56		2.2	17	44	25⅞	25¾	25⅞	
14⅞	9	AcmeC .40		3.6		65	11⅛	11	11⅛	+⅛
9½	6⅛	AcmeE .32b		5.0	16	8	6⅜	6¼	6⅜	+⅛
23⅞	17½	AdaEx 4.45e		23.		61	19¾	19½	19¾	+⅛
16⅝	9¾	AdmM s				13	14¼	14¼	14¼	+⅛
20½	12⅞	AdvSyst.45t		8.2	14	11	17¾	17⅝	17⅝	+⅛
32⅛	12⅞	AMD				1084	14⅛	13¾	14⅛	+¼
12⅝	5½	Adobe				41	6⅜	6½	6⅜	+⅛
18⅝	13¾	Adob pf 1.84		12.		2	15⅞	15⅞	15⅞	
20¼	16⅝	Adob pf 2.40		14		27	17¾	17⅝	17¾	+⅛
18⅝	11⅞	Advest .12a		1.0	9	132	12½	12⅛	12½	+¼
66½	51½	AetnLf 2.64		4.6	8	3050	57¼	56⅜	57¼	+⅞

Continued on Page 27

NYSE COMPOSITE CLOSING PRICES

Continued from Page 26

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
72¼	48⅝	Xerox	3	4.8	14	2443	63¼	62½	62⅞	
58¼	54	Xerox pf5.45		9.8		37	56½	55¼	56½	
28¾	21⅛	XTRA .64		2.4		86	27	26¾	27	+⅛
18¾	13½	Yorkin n				88	16½	15⅞	16½	
50⅝	28½	ZaleCp 1.40		2.8		6	49⅞	49	49⅞	+⅛
8⅞	2¼	Zapata .03j				772	3⅜	3⅞	3¾	+⅜
43⅞	20¾	Zayre s .32		1.3	18	1096	25⅜	25⅛	25⅜	−⅛
17	8¾	Zemex .40		3.0	21	22	13⅜	13¼	13⅜	+⅜
29⅞	17⅞	ZenithE				1311	22	21½	21¾	−⅛
18¼	8	ZenLb s			56	333	9	8¾	9	−⅛
22⅝	12⅝	Zero s .28		2.0	15	33	15	14¼	14¼	−⅛
45¾	32¾	Zurmin 1.32		3.4	16	111	39½	39	39¼	
10⅝	6¾	Zweig n				390	9	8¾	9	+¼

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls - sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, December 26

OVER-THE-COUNTER

Nasdaq national market, closing prices December 26

Continued on Page 25

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and interest rates expected to fall

by Colin Millham

INTERNATIONAL interest rates are expected to fall in 1987. There was unanimity among the economic forecasters on this subject as 1986 drew to an end, and attention turned to the New Year. James Capel's international bond and currency review for December said the only doubt about declining interest rates in the major industrialised countries concerned the UK.

The US discount rate should be cut during the first quarter of next year, according to James Capel, in response to sluggish growth in the economy, continuing concern over manufacturing industry and inflation reaching a 22-year low of 1.1 per cent in January.

Midland Bank's market review for December agrees that US interest rates will trend lower once seasonal year-end pressure subsides.

The Bank says there is widespread expectation that the Federal Reserve will move to lower the discount rate in early 1987.

Lloyds Bank International Financial Outlook has also recently predicted a fall in the US discount rate in the first quarter.

James Capel expects a reduction in Japanese interest rates in the first half of next year, to head off any upward move in the yen, against a background of continuing disappointment over the performance of the domestic economy.

Midland Bank is not so sure, but forecasts that Japanese rates will drift moderately lower over the next six months, while the yen remains reasonably stable against the dollar, but weakens against the D-Mark. Midland suggests it is unlikely the Bank of Japan will further ease its credit policy.

Forecasters generally expect the D-Mark to remain the strong currency in 1987. Money supply growth is seen as the major factor preventing an early cut in West German interest rates. At the Bundesbank council meeting on December 18 the money supply target range for next year was widened to 3 to 6 per cent from 3.5 to 5.5 per cent, but in the six months to November the money stock rose by nearly 9 per cent.

Capel says interest rates in West Germany will only be cut when monetary growth slows down in line with the 1987 target, and believes no cut is likely before the third quarter.

Midland expects German rates to remain at their present levels over the next two to three months, but then forecasts a cut to stimulate domestic growth, and to slow down or even reverse, the D-Mark's appreciation.

Lloyds also forecasts a reduction in German rates, after the Federal elections on January 25, and following a realignment around the middle of the year, but Lloyds and Capel agree it is more likely around the end of the first quarter. Capel comments that it is the only way of slowing German monetary growth in line with the 1987 target, and forecasts a revaluation of the D-Mark and Dutch guilder, coupled with a devaluation of the Danish krone, Belgian franc and Irish punt. The French franc may also be included in the latter group.

Frustration over the inability of the US to acheve a deal on trade and interest rates with Europe, notably Germany, should combine with an impending protectionist bill in the US Congress and stubbornly high US trade deficits to generate calls for a further decline by the dollar, according to Capel.

There is not much argument about a further weakening of the dollar, which is expected to gain momentum in the Spring. Capel and Midland see a dollar rate against the D-Mark of DM 1.93 in three months time. Lloyds forecasts DM 1.90, and DM 1.75 by the end of September. Midland expects DM 1.85 by the end of June, but Capel is more conservative, forecasting DM 1.85 by the end of next year.

£ IN NEW YORK

Dec 26	Latest	Previous Close
£ Spot	1.4560-1.4580	1.4625-1.4640
1 month	0.42-0.40 pm	0.42-0.41 pm
3 months	1.58-1.55 pm	1.60-1.57pm
12 months	6.40-6.30 pm	6.45-6.35 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Dec. 24	Previous
8.30 am	68.9	68.5
9.00 am	68.9	68.5
10.00 am	68.9	68.4
11.00 am	69.1	68.3
Noon	69.0	68.3
1.00 pm	—	68.4
2.00 pm	—	68.5
3.00 pm	—	68.6
4.00 pm	—	68.6

CURRENCY MOVEMENTS

December 24	Bank of England Index	Morgan Guaranty Changes %
Sterling	69.0	−24.9
U.S. Dollar	109.5	+2.9
Canadian Dollar	77.4	−12.3
Austrian Schilling	135.1	+9.5
Belgian Franc	92.1	−5.4
Danish Krone	90.7	+0.3
Deutsche Mark	144.1	+20.9
Swiss Franc	167.1	+20.9
Guilder	132.0	+13.5
French Franc	72.5	−12.6
Lira	48.5	−15.3
Yen	204.4	+51.3

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu December 24	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.2666	+0.35	+1.11	± 1.5368
Danish Krone	7.81701	7.87373	+0.73	+1.49	± 1.6403
German D-Mark	2.11083	2.07890	−1.51	−0.75	± 1.1127
French Franc	6.87316	6.83533	−0.55	+0.21	± 1.3659
Dutch Guilder	2.37833	2.35086	−1.16	−0.40	± 1.5059
Irish Punt	0.764976	0.764311	−0.09	+0.67	± 1.6683
Italian Lira	1476.95	1442.39	−2.34	−1.96	± 4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Dec. 24	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.457	2.870	236.0	9.440	2.403	3.245	1992.	2.006	59.75
$	0.686	1	1.970	162.0	6.480	1.650	2.227	1368.	1.377	41.00
DM	0.348	0.508	1	82.23	3.289	0.837	1.131	694.1	0.699	20.82
YEN	4.237	6.174	12.16	1000	40.00	10.18	13.75	8441.	8.500	253.2
F Fr.	1.059	1.543	3.040	250.0	10.	2.545	3.438	2110.	2.125	63.29
S Fr.	0.416	0.606	1.195	98.23	3.929	1.	1.351	829.1	0.835	24.87
H Fl.	0.308	0.449	0.884	72.73	2.909	0.740	1.	613.9	0.618	18.41
Lira	0.502	0.731	1.441	118.5	4.739	1.206	1.629	1000.	1.007	29.99
C $	0.499	0.726	1.431	117.6	4.706	1.198	1.618	993.0	1.	29.79
B Fr.	1.674	2.438	4.803	395.0	15.80	4.021	5.431	3334.	3.357	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

Dec. 24	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	11¼-11½	10⅞-11⅛	11-11¼	11⅜-11½	11⅜-11½	11⅜-11½
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	6¾-7¼	8-10	8-8½	8⅝-9⅛	8¾-9¼	8½-9
Italian Lire	9½-11½	10-12½	10¼-11¼	10⅞-11⅝	10¾-11¼	10½-11
B. Fr. (Fin.)	6¾-7	6⅞-7⅛	7¼-7⅜	7¼-7½	7⅝-7¾	7⅝-7¾
B. Fr. (Con.)	6½-7	7½-9	7¼-7⅜	7⅛-8¼	7¼-8¼	7⅛-8¼
Yen	4⅛-4⅜	6⅛-6¼	4¼-4⅜	4⅛-4⅜	4⅛-4⅜	4⅛-4⅜
D. Krone	8⅞-9⅜	9½-10	9⅞-10⅜	10⅛-10⅝	10¼-10¾	10⅛-10⅝
Asian $ (Sing.)	5½-5⅝	5½-5⅝	4⅞-4½	3¾-4	3⅝-3¾	3⅝-3¾

Long-term Eurodollars: Two years 6½-6¾ per cent; three years 7-7¼ per cent; four years 7½-7¾ per cent, five years 7½-7⅞ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

Dec. 24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4530-1.4590	1.4565-1.4575	0.42-0.39c pm	3.34	1.57-1.52 pm	4.24
Canada	2.0014-2.0108	2.0055-2.0065	0.46-0.36c pm	2.45	1.40-1.25 pm	2.64
Netherlands	3.23½-3.25½	3.24-3.25	1⅝-1c pm	4.39	4-3¾ pm	4.78
Belgium	59.58-59.91	59.70-59.80	19-14c dis	−3.31	50-41dis	−3.05
Denmark	10.82-10.88½	10.85½-10.86½	1½-½ore pm	0.83	2⅞-2pm	0.90
Ireland	1.0549-1.0616	1.0580-1.0590	0.15-0.30p dis	−2.55	0.50-0.75 dis	−2.36
W. Germany	2.86-2.87½	2.86½-2.87½	1¼-1 pf pm	4.70	4⅛-3⅞ pm	5.57
Portugal	214.50-217.50	214.50-215.00	102-150 c dis	−7.04	242-336 dis	−5.38
Spain	193.25-194.40	194.10-194.40	10-35 c dis	−1.39	20-76 dis	−0.99
Italy	1980¾-1999½	1991½-1992½	1pm-2 lire dis	−0.30	2 pm-3 dis	−0.10
Norway	10.88½-10.93¾	10.90-10.91	4¾-5¾ ore dis	−5.23	11¾-12⅞ dis	−4.52
France	9.41¾-9.46½	9.43½-9.44½	1⅞-1 c pm	1.83	3½-2¾ pm	1.24
Sweden	9.97¾-10.02¾	9.99¾-10.00¾	1⅞-⅞ ore pm	1.35	3¾-2⅝ pm	1.22
Japan	235½-236½	235½-236½	1⅝-1⅛ y pm	6.36	4-3¾ pm	6.57
Austria	20.12-20.24	20.15-20.18	9⅝-7⅞ gro pm	5.13	28½-24 pm	5.21
Switzerland	2.39¾-2.41¼	2.39¾-2.40¾	1⅛-⅞ pm	4.99	3⅞-3⅝ pm	6.24

Belgian rate is for convertible francs. Financial franc 60.40-60.50. Six-month forward dollar 3.32-3.25 c pm. 12-month 6.40-6.30 c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Dec. 24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4530-1.4590	1.4565-1.4575	0.42-0.39c pm	3.34	1.57-1.52 pm	4.24
Ireland†	1.3760-1.3805	1.3770-1.3780	0.75-0.68c pm	6.22	2.48-2.30 pm	6.93
Canada	1.3760-1.3780	1.3770-1.3780	0.04-0.07c dis	−0.48	0.55-0.60 dis	−1.67
Netherlands	2.2215-2.2285	2.2265-2.2275	0.17-0.12c pm	0.78	0.17-0.12 pm	0.26
Belgium	40.90-41.05	40.95-41.05	2 pm-par pm	0.29	11-15 dis	−1.27
Denmark	—	7.45¼-7.45¾	Par-1ore dis	−0.80	4.50-5.50 dis	−2.68
W. Germany	1.9620-1.9705	1.9690-1.9700	0.31-0.28pf pm	1.80	0.71-0.66 dis	1.39
Portugal	147½-147¾	147½-147¾	120-170c dis	−11.80	330-390 dis	−9.76
Spain	132.90-133.20	133.10-133.20	40-60c dis	−4.51	175-225 dis	−6.09
Italy	1363-1368	1367¼-1367¾	2½-4½ lire dis	−3.08	14-16 dis	−4.40
Norway	7.48-7.49	7.48¼-7.48¾	4.75-5.75ore dis	−8.01	16.50-18.00dis	−9.21
France	6.47-6.48½	6.47¼-6.48¼	0.75-1.00c dis	−1.62	5.00-5.50 dis	−3.24
Sweden	6.85¾-6.86¾	6.86¼-6.86¾	0.75-1.25 ore dis	−1.75	5.00-6.00 dis	−3.20
Japan	161.60-162.05	161.90-162.00	0.46-0.41y pm	3.22	0.88-0.83 pm	2.11
Austria	—	13.84-13.84½	3.90-2.70gro pm	2.86	5.23-3.00gropm	1.62
Switzerland	1.6420-1.6500	1.6490-1.6500	0.36-0.31c pm	2.44	0.86-0.79 pm	2.01

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 41.35-41.45.

CURRENCY RATES

OTHER CURRENCIES

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.4570	1.4530	1.4416	1.4242	1.3935
D-mark	2.8700	2.8578	2.8297	2.7876	2.7098
French Fr.	9.4400	9.4265	9.4157	9.3697	9.2648
Swiss Fr.	2.4025	2.3910	2.3651	2.3230	2.2483
Yen	236.00	234.72	232.27	228.50	221.82

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
100	11.50	12.04	0.00	0.08
102	9.51	10.13	0.01	0.17
104	7.55	8.27	0.05	0.31
106	6.00	6.50	0.14	0.54
108	4.19	5.19	0.33	1.23
110	2.55	4.01	1.05	2.05
112	1.47	2.60	1.61	3.00
114	0.61	2.05	3.11	4.09

Estimated volume total, Calls 430 Puts 5
Previous day's open int. Calls 11,519 Puts 6,347

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
90	10.15	9.35	0.01	0.15
92	8.17	7.49	0.03	0.29
94	6.24	6.09	0.10	0.53
96	4.40	4.44	0.26	1.24
98	3.07	3.29	0.57	2.09
100	1.58	2.28	1.44	3.08
102	1.04	1.42	2.54	4.22
104	0.34	1.05	4.20	5.49

Estimated volume total, Calls 1 Puts 100
Previous day's open int. Calls 801 Puts 443

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Jan	Calls—Last Feb	Puts—Last Jan	Puts—Last Feb
15750	11.62	11.61	0.02	0.21
16000	9.27	9.53	0.07	0.43
16250	6.83	7.43	0.23	0.83
16500	4.71	5.56	0.61	1.46
16750	2.95	3.98	1.35	2.38
17000	1.65	2.71	2.55	3.61
17250	0.81	1.75	4.21	5.15
17500	0.27	—	7.07	—

Estimated volume total, Calls 0, Puts 0
Previous day's open int. Calls 178, Puts 51

LIFFE £/$ OPTIONS

LONDON SE £/$ OPTIONS

PHILADELPHIA SE £/$ OPTIONS

LIFFE—EURODOLLAR OPTIONS

LONDON

CHICAGO

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Close	High	Low	Prev.
March	94.74	94.74	94.73	94.74
June	94.78	94.78	94.77	94.78
Sept.	94.75	94.75	94.73	94.75
Dec	94.62	94.73	—	94.60

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Close	High	Low	Prev.
Mar.	93.97	93.98	93.96	93.96
June	93.99	93.99	93.97	93.99
Sept.	93.92	93.92	93.90	93.92
Dec.	93.74	93.75	93.73	93.74
Mar.	93.49	93.50	93.47	93.48
June	93.18	93.17	93.15	93.16
Sept.	92.86	92.85	92.83	92.85
Dec.	92.53	92.52	92.52	92.50

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4570	1.4530	1.4416	1.4242	1.3935

IMM—STERLING $s per £

	Close	High	Low	Prev
Mar.	1.4455	1.4490	1.4410	1.4475
June	1.4280	1.4320	1.4225	1.4300
Sept.	1.4115	1.4155	1.4050	1.4135

MONEY MARKETS

Uncertainty about the UK's prospects

ON CHRISTMAS Eve sterling rose to its highest level against the dollar since September, and the exchange rate index was the strongest for over a month. London interest rates hardly moved however, indicating the amount of uncertainty in the market.

A UK current account deficit in 1987 is expected to produce a weakening of the pound, but the size of the deficit is open to debate. As Midland Bank's market review points out the Treasury has forecast a shortfall of £1.5bn, while the National Institute of Economic and Social Research expects £5.6bn.

UK clearing bank base lending rate 11 per cent since October 15

James Capel has based its prediction of a weaker pound on a current account deficit for the year of £3.4bn, and expects sterling to slide with a falling dollar, against a background of political uncertainty, and problems for Opec in propping up oil prices.

Capel says the main risk to this forecast is a May general election, with an outright Conservative victory, plus more buoyant oil prices in 1987, which would push sterling significantly stronger.

County NatWest's gilt-edged market bulletin for January warns there must be doubt about Opec's willingness to stick to its new quotas, but is generally optimistic about market prospects for the New Year.

Midland Bank is worried about the oil market, the UK current account, and faster growth in MO money supply, fearing these factors could force a rise in interest rates early next year.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec. 24) 3 months U.S. dollars		6 months U.S. dollars	
bid 6 1/16	Offer 6 3/16	bid 6 3/16	Offer 6 5/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY RATES

NEW YORK (4 pm)

		Treasury Bills and Bonds			
Prime rate	7½	One month	5.13	Three year	6.43
Broker loan rate	7½-8	Two month	5.49	Four year	6.63
Fed funds	5⅞	Three month	5.72	Five year	6.70
Fed. funds at intervention	—	Six month	5.82	Seven year	6.93
		One year	5.90	10 year	7.07
		Two year	6.30	30 year	7.33

LONDON MONEY RATES

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS